GRAHAM
ENGINEERING ANSWERS

Fiscal Year 2021
Annual Report

COMPANY PROFILE

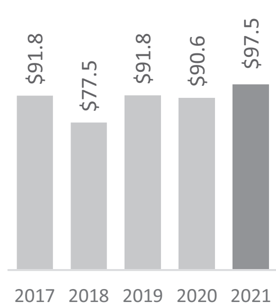
Graham Corporation is a global business that designs, manufactures, and sells critical equipment for the energy, defense and chemical/petrochemical industries. Energy markets include oil refining, cogeneration, and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. For the chemical and petrochemical industries, our equipment is used in fertilizer, ethylene, methanol and downstream chemical facilities.

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

Our reach spans the globe and our equipment is installed in facilities from North and South America to Europe, Asia, Africa and the Middle East.

Net Sales

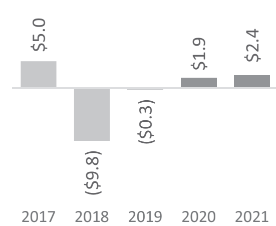
(Dollars in millions)



Fiscal Year Ended March 31

Net Income (Loss)

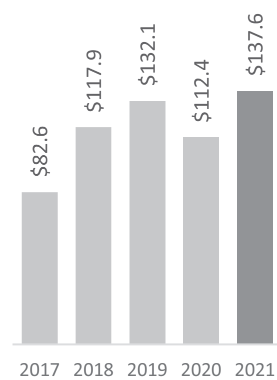
(Dollars in millions)



Fiscal Year Ended March 31

Backlog

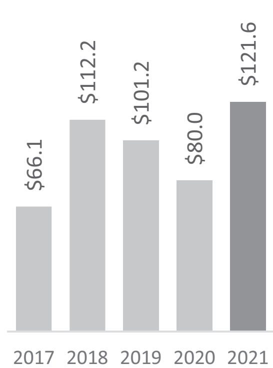
(Dollars in millions)



at March 31

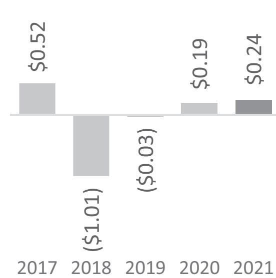
Orders

(Dollars in millions)



Fiscal Year Ended March 31

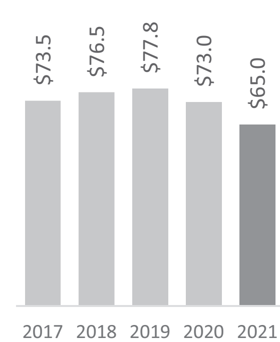
Diluted Earnings (Loss) Per Share



Fiscal Year Ended March 31

Cash and Cash Equivalents

(Dollars in millions)



Includes investments at March 31

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

Fiscal years ended March 31,	2021	2020	2019	2018	2017
Operating Performance					
Net Sales	$ 97,489	$ 90,604	$ 91,831	$ 77,534	$ 91,769
Gross profit	20,469	18,148	21,909	16,975	22,157
Gross margin (%)	*21.0%*	*20.0%*	*23.9%*	*21.9%*	*24.1%*
Selling, general and administrative	17,471	16,879	17,878	15,769	14,864
Goodwill and other impairments	-	-	6,449	14,816	-
Restructuring charge	-	-	-	316	630
Operating margin (%)	*3.1%*	*0.7%*	*(2.6)%*	*(18.0)%*	*7.3%*
Net income (loss)	2,374	1,872	(308)	(9,844)	5,023
Diluted Net income (loss) per share	$ 0.24	$ 0.19	$ (0.03)	$ (1.01)	$ 0.52
Weighted average common shares outstanding - diluted	9,959	9,879	9,823	9,764	9,728
Year-End Financial Position					
Total assets	$ 144,280	$ 148,120	$ 156,270	$ 143,333	$ 151,570
Finance lease obligations	34	55	95	55	143
Cash, cash equivalents and investments	65,032	73,003	77,753	76,479	73,474
Stockholders' equity	97,929	96,724	98,966	103,349	114,110
Net book value per share	$ 9.83	$ 9.79	$ 10.05	$ 10.58	$ 11.72
Dividends declared per share	$ 0.44	$ 0.43	$ 0.39	$ 0.36	$ 0.36
Other Data					
Working capital	$ 76,675	$ 77,443	$ 79,896	$ 78,105	$ 78,688
Depreciation and amortization	1,945	1,968	2,205	2,222	2,326
Purchase of property, plant and equipment	2,158	2,417	2,138	2,051	325
Backlog	$ 137,567	$ 112,389	$ 132,127	$ 117,946	$ 82,590
Number of employees	331	337	337	304	336

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

As I reflect on fiscal 2021, it will clearly stand out as the most challenging of these past 15 years in which I have had the privilege to be President and CEO of Graham. The global slowdown created by the COVID-19 pandemic was unprecedented. End markets ground to a halt, people around the world were unable to work, fear and uncertainty were everywhere and businesses' near-term planning was turned upside down. Nevertheless, Graham's values and operating principles served as our compass to navigate these difficulties. Moreover, we continued to focus on the areas of our business that we could influence with the belief that by controlling well what we could, Graham would be stronger on the other side of this once in a lifetime event.

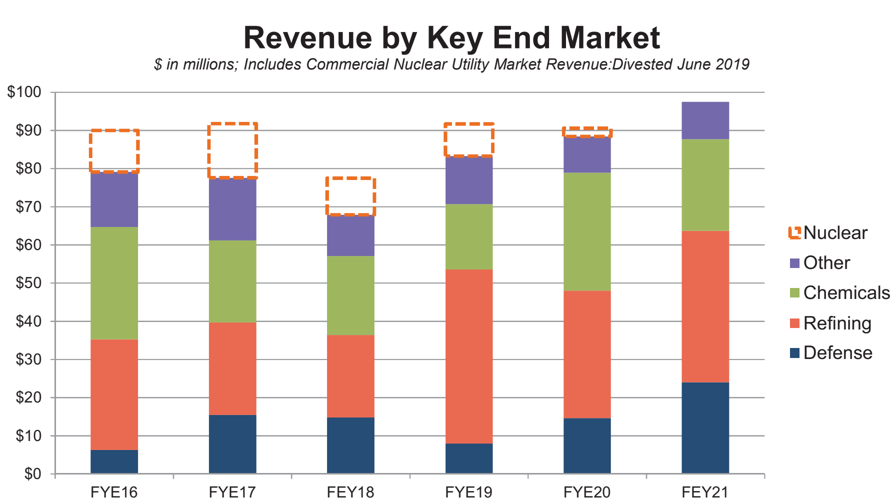
A fundamental guiding value for Graham is maintaining a strong, vibrant and engaged workforce. To protect our employees, our most valuable asset, we shut down operations for a period of time in the first quarter of fiscal 2021. Despite this, wages were maintained at 100%. I am extremely proud that we supported all employees with wage continuity even while operating at just 50% capacity. Shutting down operations also enabled employees to address the many, varied issues of personal life that were thrust upon us all when COVID-19 hit. We believe that our decision to protect our human capital and focus on the retention of our highly trained workforce will benefit customers and shareholders as end markets recover.

We operated at approximately 90% throughput during the third and fourth quarters of fiscal 2021. We focused on workplace protocols and safety processes intended to create a safe work environment, while at the same time we ensured the needs of our customers were continuing to be met.

Given the adverse environment, I am proud to report Graham delivered $97.5 million in revenue, up 8% over the prior fiscal year. Profitability was impacted due to the under-absorption of overhead costs given our proactive measures to protect the financial well-being of all our employees, but nonetheless improved over the prior fiscal year. Net income was $2.4 million, up $0.5 million or 27% from fiscal 2020.

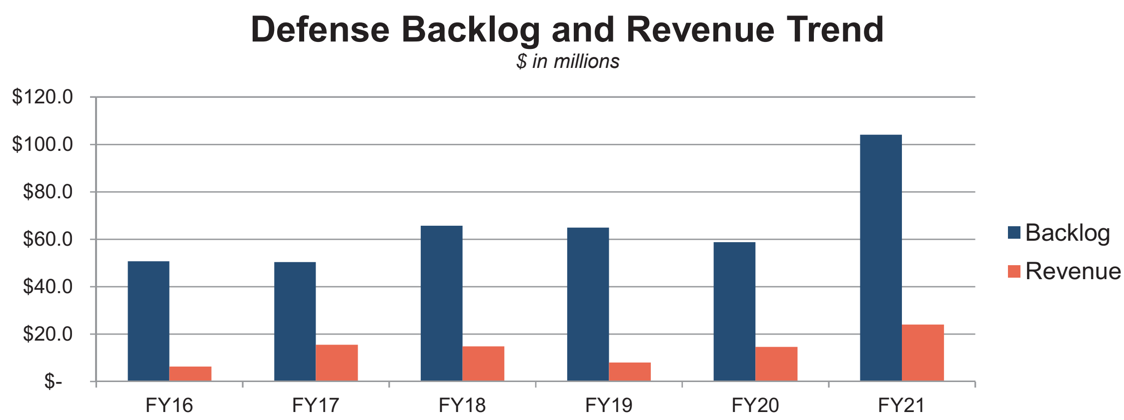
Executing on our Defense Strategy

The underpinning strength of our Defense strategy is the industry itself. This market is less cyclical, uncorrelated to our traditional crude oil and chemical markets and measurably less volatile. The projects for this industry also provide longer term contract awards that enable greater visibility for revenue and demand potential. We initiated the strategy about 10 years ago, and it has progressed well since our first project win with a single component for the U.S. Navy nuclear propulsion program for aircraft carriers. Today, we are providing seven different components over three Naval nuclear propulsion programs – two submarine programs along with the carrier program. In total, revenue to the Defense industry in fiscal 2021 grew 64% to $24 million and was 25% of consolidated revenue. Based on



the timing of backlog conversion, we expect modest growth in organic defense revenue in fiscal 2022, which is then expected to reach more than $40 million by fiscal 2025.

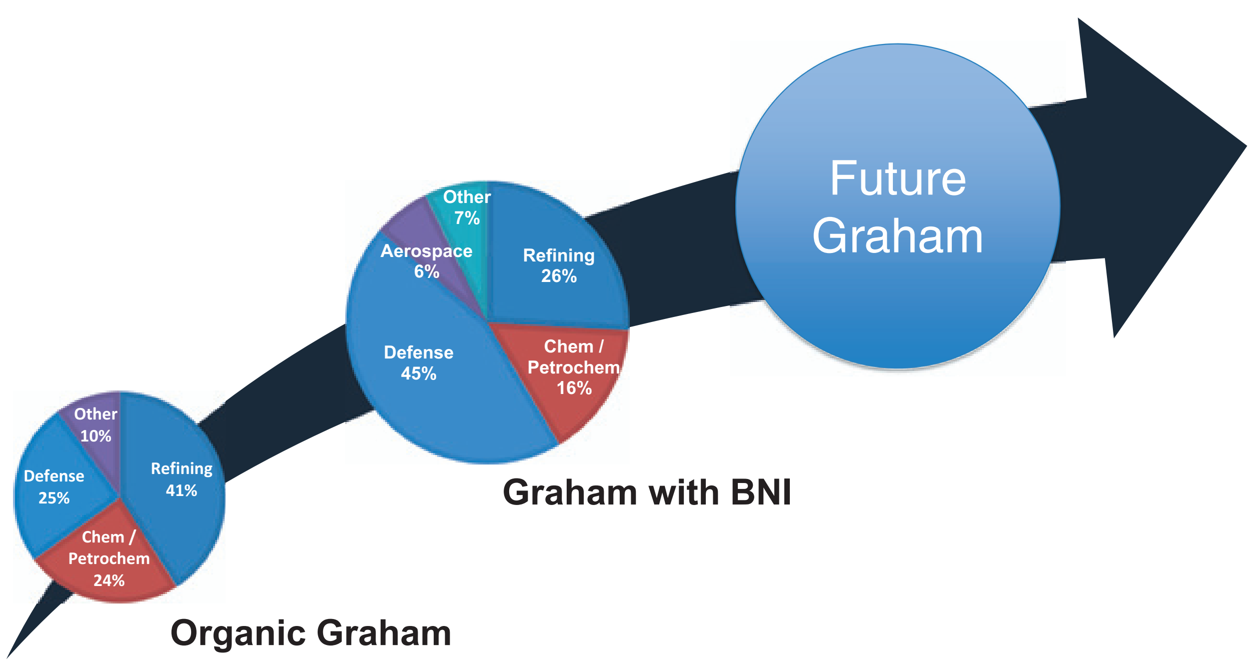
Our team that is driving the defense strategy has surpassed my expectations. The success of their efforts to diversify our markets was clearly demonstrated in the growth of our defense backlog, which exceeded $100 million at fiscal 2021 year-end and was 76% of total backlog. Graham has a high quality, multi-year level of defense backlog which we expect will provide excellent loading of our operating assets.



Accelerating Diversification Strategy with Acquisition of Barber-Nichols

Following the end of fiscal 2021, we successfully acquired Barber-Nichols ("BNI") on June 1, 2021. This was a transformative acquisition for Graham and accelerates our diversification strategy into the less cyclical defense sector. BNI revenue in calendar year 2020 was $56 million and it is expected to contribute $45 million to $48 million in revenue for the ten months we will own it in fiscal 2022. Importantly, BNI provides a new platform for Graham for both organic and follow on acquisitive growth.

The BNI acquisition took nearly three years to bring to fruition. The time during those years was spent well, as we forged relations and created a shared vision for the value of the combination. Importantly, we observed BNI's management in action - their planning process, forecasting and projection fidelity, organizational development practices and their ability to achieve stretch performance objectives. This provided tremendous insight into the company and its leadership team.



Their products serve the defense, aerospace/space, advanced power and cryogenic industries. While also a defense industry supplier, BNI does not overlap with Graham's traditional products. Therefore, it expands our addressable market within Defense while also providing access to new and growing markets, such as aerospace and advanced power.

Truly transformed, Graham is a very different company with the addition of BNI. We believe we now have greater revenue potential, broader defense industry participation, access to new markets and a platform for further capital deployment to enhance growth.

I will close by acknowledging all my Graham associates for their admirable diligence, commitment and passion provided to deliver top line growth under such adverse conditions. I am proud of the management team for their demonstrated agility and focus during such an extraordinary time.   I also want to credit the business development efforts of Jeff Glajch, our CFO, and Chris Johnston, Director of Business Development, and to thank our Board of Directors for their engagement, counsel and strategic oversight. We believe BNI is a great addition to Graham Corporation.

Dan Thoren, former chairman, CEO, President and major shareholder of BNI, joins Graham as our President and Chief Operating Officer. Dan has a proven track record of strong leadership and ability to execute growth, develop a strong culture and build a talented organization. We believe he will be a valuable asset for Graham.

Lastly, I thank you, our shareholders, for your investment in GHM and the trust you have placed in me, the leadership team and the Board of Directors.

Sincerely,

James R. Lines

James R. Lines
Chief Executive Officer

June 8, 2021

GRAHAM

ENGINEERING ANSWERS

SEC FORM 10-K

The following Annual Report on Form 10-K for the year ended March 31, 2021 was filed with the U.S. Securities and Exchange Commission on June 2, 2021.

GRAHAM

ENGINEERING ANSWERS

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, 2021

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

Securities registered pursuant to Section 12(g) of the Act: 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 15(d) of the Act. YES ☐ NO ☒

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

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

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

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

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

Indicate by checkmark whether the Registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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 Registrant's Common Stock held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on the NYSE Stock Market on September 30, 2020, was $121,846,373.

As of May 26, 2021, the Registrant's Common Stock outstanding was 9,949,925 shares, $0.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement, to be filed in connection with the Registrant's 2021 Annual Meeting of Stockholders to be held on July 28, 2021, 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, 2021

Note: Portions of the Registrant's definitive Proxy Statement, to be issued in connection with the Registrant's 2021 Annual Meeting of Stockholders to be held on July 28, 2021, 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" or the "Company") is a global business that designs, manufactures and sells critical equipment for the energy, defense and chemical/petrochemical industries. Our energy markets include oil refining, cogeneration, and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. For the chemical and petrochemical industries, our equipment is used in fertilizer, ethylene, methanol and downstream chemical facilities. Graham's global brand is built upon our world-renowned engineering expertise in vacuum and heat transfer technology, responsive and flexible customer service and high quality standards. We design and manufacture custom-engineered ejectors, vacuum pumping systems, surface condensers and vacuum systems. Our equipment can also be found in other diverse applications such as metal refining, pulp and paper processing, water heating, refrigeration, desalination, food processing, pharmaceutical, heating, ventilating and air conditioning.

Our corporate headquarters are located in Batavia, New York. We have production facilities located with our headquarters in Batavia. We also have two wholly-owned foreign subsidiaries, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd. ("GVHTT"), located in Suzhou, China, and Graham India Private Limited ("GIPL"), located in Ahmedabad, India. GVHTT provides sales and engineering support for us in the People's Republic of China and management oversight throughout Southeast Asia. GIPL serves as a sales and market development office focusing on the refining, petrochemical and fertilizer markets. During the fiscal year ended March 31, 2020, we sold our wholly-owned subsidiary, Energy Steel & Supply Co. ("Energy Steel"), located in Lapeer, Michigan.

On June 1, 2021, we acquired Barber-Nichols, Inc. ("BNI"), a privately-owned designer and manufacturer of turbomachinery products for the aerospace, cryogenic, defense and energy markets, located in Arvada, Colorado. BNI has approximately 140 employees. The acquisition includes BNI's new, 43,000 square foot, state-of-the-art manufacturing plant which is part of their 96,000 square foot facility in Arvada, Colorado. We believe that this acquisition will further our growth strategy through market and product diversification, broaden our offerings to the defense and energy markets and strengthen our presence in the defense sector.

We were incorporated in Delaware in 1983 and are the successor to Graham Manufacturing Co., Inc., which was incorporated in New York in 1936. 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 and defense markets, including:

- ***Petroleum Refining***
  - conventional oil refining
  - oil sands extraction and upgrading
- ***Defense - Naval Nuclear Propulsion Program***
  - aircraft carrier program (CVN)
  - Virginia fast-attack submarine program (SSN)
  - Columbia ballistic submarine program (SSBN)
  - refueling and overhaul replacement equipment
- ***Chemical and Petrochemical Processing***
  - ethylene, methanol and nitrogen producing plants
  - fertilizer plants
  - plastics, resins and fibers plants
  - downstream petrochemical plants
  - coal-to-chemicals plants
  - gas-to-liquids plants
- ***Power Generation /Alternative Energy***
  - biomass plants
  - cogeneration power plants
  - geothermal power plants
  - ethanol plants
  - fossil fuel plants

- ***Other***
    - — oleo chemical plants
    - — air conditioning and water heating systems
    - — food processing plants
    - — pharmaceutical plants
    - — liquefied natural gas production facilities

Our principal 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 whom 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 project over such a multi-year period. Two customers each accounted for more than 10% of our revenue in the fiscal year ended March 31, 2021, which we refer to as fiscal 2021, while a different customer accounted for more than 10% of our revenue in the fiscal year ended March 31, 2020, which we refer to as fiscal 2020.

As a result of our diversification efforts to more extensively support the U.S. Navy, we have increased our domestic sales in 2021. Over a business cycle in the energy markets, our domestic sales will generally range between 50% and 70% of total sales. The mix of domestic and international sales can vary from year to year.

Our backlog at March 31, 2021 was $137,567 compared with $112,389 at March 31, 2020.

Our Strengths

Our core strengths include:

- *We have a value-enhancing sales and development platform.* We believe our customer-facing platform of sales, project estimating and application engineering are competitive advantages. We have tools and capabilities that we believe allow us to move quickly and comprehensively as customers evaluate how best to integrate our equipment into their facilities. We believe that our early and deep involvement adds significant value to the process and is an important competitive differentiator in the long sales cycle industries we serve. We believe customers need our engineering and fabrication expertise early in the project life cycle to understand how best to specify our equipment.

- *We are renowned for our strong capabilities to handle complex, custom orders*. The orders we receive are extremely complex and we believe that our order management platforms provide another competitive differentiator for our company. In our markets, we believe that order administration, risk management, cost containment, quality and engineering documentation are as important as the equipment itself. We have developed strong order management capabilities to enable us to deliver high quality, engineered-to-order and build-to-spec process-critical equipment in a timely manner. For our customers' complex, custom orders we typically manage very rigorous interaction between our project management teams and the end user or its engineering firm, as product design and quality requirements are finalized once an order is received. Customers' supplier selection process begins by assessing these order management capabilities.

- *We maintain a responsive, flexible production environment.* We believe our operations platform is adept at handling low volume, high mix orders that are highly customized fabrications. We also believe that our production environment is much different from a highly engineered standard products business. While certain equipment in a product group may look similar, there are often subtle differences which are required to deliver the desired specification. Also, during production it is not uncommon for customer-driven engineering changes to occur that alter the configuration of what had been initially released into production. The markets that we serve demand this flexible operating model.

- *We have the capability to manage outsourced production.* Effectively accessing the global fabrication supply chain expands our market reach, increases execution capacity and can improve competitiveness. We use this capability for three primary reasons: 1. delivering a lower cost manufacturing option; 2. expanding capacity to execute an order to meet customer timing requirements and 3. addressing localized content requirements. We have proven capability to deliver our specialized product designs with outsourced fabrication that is on-time, within budget and that meets our high quality standards.

- *We provide robust after-the-sale technical support.* Our engineering and performance improvement personnel go to customer sites to audit the performance of our equipment, provide operator training and troubleshoot performance issues. Technical service after a sale is important to our customers as we believe their focus is always on leveraging our equipment to maximize their facilities' productivity.

- *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 financial flexibility to pursue our business strategy, including growth by acquisition. On June 1, 2021 we utilized $41,150 of cash and investments to acquire BNI.

- *We have a high-quality credit facility*. On March 31, 2021 our credit facilities provided $37,000 of borrowing capacity. On June 1, 2021 we entered into new credit agreements which provide $57,500 of borrowing capacity, including a $20,000 term loan to acquire BNI. We also reissued approximately 610 treasury shares with a value of approximately $8,963.

Our Strategy

We intend to strategically leverage and deploy our assets, including but not limited to, financial, technical, manufacturing and industry know-how, in order to capture expanded market share within the geographies and industries we serve, expand revenue opportunities in adjacent and countercyclical markets and 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 to reinvest in our business or return to shareholders in the form of ordinary dividends; and

- Provide an acceptable return to our shareholders.

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

- Successfully deploy our corporate assets to expand our market share in the industries we currently serve, access and develop a stronger presence in industries where historically we have not had a strong presence, and pursue acquisitions, partnerships and/or other business combinations in order to enter new geographic or industrial markets, new product lines or expand our coverage in existing markets.

- Identify organic growth opportunities and consummate acquisitions where we believe the strength of the Graham brand will provide us with the ability to expand and 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 presence in the U.S. Navy's Nuclear Propulsion Program. We will continue 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 continue to be a preferred supplier of equipment to the U.S. Navy's Nuclear Propulsion Program for both surface and submarine vessels.

- Continue to invest in people and capital equipment to meet the long-term demand for our products in the oil refining, petrochemical processing and defense industries, especially in emerging geographic 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 continue to invest in and leverage our unique value enhancing differentiators, including:

- 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 and opportunities.
- Invest in our manufacturing operations to improve productivity where needed and identify out-sourced capacity to complement our growth strategies.
- Accelerate our ability to quickly and efficiently bid on available projects through our ongoing implementation of front-end bid automation and design processes.
- 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 ongoing refinement of our flexible manufacturing flow model as well as achievement of other cost efficiencies.
- Focus on improving quality to eliminate errors and rework, thereby reducing lead time and enhancing productivity.
- Further develop a cross-trained, flexible workforce able to adjust to variable product demands by our customers.
- Consistently manage human resources to appropriately respond to market condition while striving to maintain our highly-trained workforce even in times of low demand for our products. This may result in income statement pressure, however, it provides the capacity and capability to grow quickly as markets recover.

COVID-19 Pandemic Impact

The COVID-19 pandemic began affecting our business, our customers' businesses, and the markets we serve in the fourth quarter of fiscal 2020 and has continued to rapidly evolve. The COVID-19 pandemic impacted the already volatile oil industry and markets. The pandemic impacted both our capital equipment sales as well as our short cycle business.

Our proactive measures in response to the COVID-19 pandemic included approximately three weeks of limited production at our facility in Batavia, New York beginning in late March 2020. We began bringing back our personnel early in the first quarter of fiscal 2021 and by June 2020, we had nearly all of our pre-COVID-19 pandemic headcount in our factory, subject to numerous new health and safety protocols as recommended by our federal and local authorities, including requiring appropriate personal protective equipment to be worn by everyone onsite, social distancing markers, staggered employee breaks and meetings to reduce group gatherings, expanded hygiene practices, and barriers as appropriate to separate workers based on our plant layout configuration. We deployed numerous laptop computers to our sales, engineering, quality, supply chain, finance, and administrative personnel to facilitate remote work. Throughout fiscal 2021, we limited external visitors to our Batavia facility and those few that were allowed were pre-approved and tested for COVID-19. We continue to utilize certain pandemic response measures. Our workforce safety and employee well-being continue to be top priorities and we remain committed to the service of our customers and suppliers. For further information on the risks posed to our business from the COVID-19 pandemic, see Item 1A - Risk Factors below, and our discussion of the COVID-19 pandemic throughout this report. Our first quarter operated at approximately 50% throughput capacity and during the third and fourth quarters at roughly 90% throughput capacity due to the measures taken to protect employees from the spread of COVID-19.

Competition

Our business is highly competitive. The principal bases on which we compete include technology, price, performance, reputation, delivery, and quality. Our competitors listed in alphabetical order by market include:

NORTH AMERICA

Market	Principal Competitors
Refining vacuum distillation	Croll Reynolds Company, Inc.; Gardner Denver, Inc.; GEA Wiegand GmbH
Chemicals/petrochemicals	Croll Reynolds Company, Inc.; Gardner Denver, Inc.; Schutte Koerting
Turbomachinery Original Equipment Manufacturer ("OEM") – refining, petrochemical	Donghwa Entec Co., Ltd.; KEMCO; Oeltechnik GmbH
Turbomachinery OEM – power and power producer	Holtec; KEMCO; Maarky Thermal Systems; Thermal Engineering International (USA), Inc.
Navy Nuclear Propulsion Program / Defense	DC Fabricators; Joseph Oat; PCC; Triumph Aerospace; Xylem

INTERNATIONAL

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

Intellectual Property

Our success depends in part on our ability to protect our proprietary technologies. 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 name 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 negotiate progress payments from our customers on our large projects to finance costs incurred. 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. 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 2021, and fiscal 2020, and the fiscal year ended March 31, 2019, we spent $3,367, $3,353 and $3,538, respectively, on research and development ("R&D") activities. The majority of our R&D is application specific to help solve our customers' problems in order to improve efficiencies, address challenging environments or caustic materials, or redesign for form and function. We may be engineering new products and services for our customers. We also continually look to improve existing products and services.

Employees

As of March 31, 2021, we had 331 employees. We believe that our relationship with our employees is good.

Available Information

We maintain a website located at www.graham-mfg.com. On our website, we provide a link to the Securities and Exchange Commission's (the "SEC") website that contains the reports, proxy statements and other information we file electronically. Printed copies of all documents we file with the SEC are available free of charge 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 the impact of the COVID-19 pandemic

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

Our business, financial condition and results of operations have been and may continue to be adversely affected if the COVID-19 pandemic, or another global health crisis, impacts our employees, suppliers, customers, financing sources or others' ability to conduct business or negatively affects consumer and business confidence or the global economy. The COVID-19 health crisis has affected large segments of the global economy, including the markets we operate in. The COVID-19 pandemic began affecting our business in the fourth quarter of fiscal 2020.

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

Due to a potential COVID-19 reduction in throughput capacity, certain contracts in our backlog may experience delayed shipment. We accept contracts that contain provisions for a buyer to recover liquidated damages if our delivery is past contractual delivery dates, and such liquidated damages claimed by a customer could adversely affect financial performance. The impact of the COVID-19 pandemic may also exacerbate other risks discussed in this Item 1A - Risk Factors, any of which could have a material adverse effect on us. The situation surrounding the COVID-19 pandemic and its impact continues to change rapidly and additional impacts may arise that we are presently unaware of.

The COVID-19 pandemic may disrupt and cause delays in our supply chains, and such disruptions could adversely affect our results of operations and financial performance.

The raw materials that we source come from a wide variety of domestic and international suppliers. Global sourcing of many of the products we sell is an important factor in our financial results. It is possible that the ongoing COVID-19 pandemic could cause a disruption in our supply chain. If that supply chain is disrupted for an extended period of time, including due to the COVID-19 pandemic or another global health crisis, our ability to meet customer requirements and achieve our financial performance may be affected. We cannot at this time predict the impact of the COVID-19 pandemic on our supply chain, but we are maintaining ongoing communications with our suppliers to monitor their status. Any disruption to our supply chain could negatively impact our operations and financial performance.

Disruption to the global oil markets, including from the impact of the COVID-19 pandemic, could adversely affect our customers' and our own results of operations and financial performance.

Our business, consolidated results of operations and financial condition, or that of our customers, may be adversely affected by significant decreases in demand for oil resulting from global restrictions on travel, work from home practices, and the significant reduction in industrial and commercial activity, or an increase in operating costs as a result of the global business disruption resulting from the COVID-19 pandemic or that may result from a future global health crisis. Global oil markets continue to experience significant volatility and had dramatic declines in prices in fiscal 2021 due to decreased demand during the COVID-19 pandemic resulting from government-led "stay-at-home" orders and social distancing initiatives and a geopolitical imbalance of supply. Demand for some of our products is dependent on the level of expenditures by our customers in the oil and gas industry. Accordingly, continued volatility or downturns in the oil markets, and potential project cancellations, could materially and adversely impact our financial condition or results of operations.

The COVID-19 pandemic may impact businesses differently across various regions.

We operate and compete globally. The response to the COVID-19 pandemic by domestic and foreign governments has been and may continue to be varied and those differences may impact our competitiveness. Our operating subsidiaries are located in China and India, and those countries' responses to the COVID-19 pandemic have varied from the United States' response. There are uncertain political climates in the regions where our subsidiaries operate, and governmental action in those regions may result in the temporary closure or limited operations of our subsidiaries. Government assistance during a pandemic may also differ between private and public companies, which may provide an advantage to one compared with another. This may affect our competitive position and could disrupt the market access and success of our business compared with other current or new competitors. This impact could have a material adverse impact on our financial condition or results of operation.

COVID-19 disruption could impact our management team due to illness from the pandemic.

Our business has specialized management, technical and sales personnel who may become unavailable for an extended period or lost due to the effect of COVID-19 or another pandemic. The COVID-19 pandemic may significantly disrupt our workforce if a significant percentage of our employees are unable to work due to illness or quarantines. In addition, COVID-19-related illness could impact members of our Board of Directors, resulting in absenteeism from meetings of the directors or committees of directors, making it more difficult to convene the quorums of the full Board of Directors or its committees needed to conduct meetings for the management of our affairs. Any of the loss of personnel or disruption in management as described above could have a material adverse impact on our business and results of operations.

Risks related to our business

The markets we serve include the petroleum refining and petrochemical industries. These industries are both highly cyclical in nature and dependent on the prices 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.

A substantial portion of our revenue is derived from the sale of our products to companies in the chemical, petrochemical, and petroleum refining industries, or to firms that design and construct facilities for these industries. These industries are highly cyclical and have historically experienced severe downturns. The prices of crude oil and natural gas have historically had periods when they have been very volatile, as evidenced by the extreme volatility in oil prices over the past few years and, in particular, volatility related to the COVID-19 pandemic. 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 and future demand projections are clearer. 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.

The ongoing slowdown in our energy and petrochemical markets that began during the latter part of fiscal 2020, and was caused primarily by an excess supply of crude oil, had a negative impact on commodity pricing which resulted in more measured investment in maintenance and capital projects within these markets. The economic slowdown and corresponding reductions in demand for transportation fuel and petrochemical products caused by the ongoing COVID-19 pandemic further adversely affected these markets. As a result of these combined adverse supply-side and demand-side disruptions, our commercial customers in these markets have significantly reduced their operating budgets for the types of products and services we provide. The timing and catalyst for a recovery in these markets remains uncertain. Accordingly, we believe that in the near term the quantity of projects available for us to compete for will be fewer and that the pricing environment will remain challenging.

We believe that over the long-term, demand for our products will expand in the petrochemical, petroleum refining and power generating industries. A sustained 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. As we have seen in the recent past, 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 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 and the profitability of those opportunities. A demand shift, where technological advances favor the utilization of one or a few sources of energy may also impact the 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. For example, non-fossil based sources may receive government tax incentives to foster investment. If these incentives become more prominent, our business and results of operations could suffer.

A transition toward different types of energy may have a material adverse impact on our business and operating results.

Changes in consumer demand, including some driven by governmental and political preferences, toward electric, compressed natural gas, hydrogen vehicles and other alternative energy may impact our business. We have products which can support certain technologies, while other technologies will not require our equipment. A significant change in demand for oil and gas based products may have a material adverse impact on our business.

Climate change and greenhouse gas regulations may affect our customers' investment decisions.

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These restrictions may affect our customers' abilities and willingness to invest in new facilities or to re-invest in current operations. These requirements could impact the cost of our customers' products, lengthen project implementation times, and reduce demand for hydrocarbons, as well as shift hydrocarbon demand toward lower-carbon sources. Any of the foregoing could adversely impact the demand for our products, which in turn could have an adverse effect on our business and results of operations.

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 competitors may also have a cost advantage compared to us due to their geography or changes in relative currency values and may compete against us based on price. This may affect our ability to secure new business and maintain our level of profitability. 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 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. Our customers have historically focused on the quality of the engineering and product solutions which we have provided to them. Because our customers are unable to predict the length of the time period for the economic viability of their plants, there has been more of a focus on relative importance of cost versus quality which looks at short-term costs instead of total long-term cost of operations.

A change in the structure of our markets; the relationships between engineering and procurement companies, original equipment suppliers, others in the supply chain and any of their relationships with the end users could harm our business and negatively impact our financial results.

There are strong and long-standing relationships throughout the supply chain between the many parties involved in serving the end user of our products. A change in the landscape between engineering and procurement companies, original equipment suppliers, others in the supply chain, including disruptions in the supply chain due to the COVID-19 pandemic, and/or with the end users could have a material adverse effect on our business and results of operations. These changes, or others, might occur through acquisitions or other business partnerships and could have a material impact on our business and negatively impact our financial results.

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.

While we may have only one or two customers represent over 10% of revenue in any one year, a small number of customers have accounted for a substantial portion of our historical net sales. For example, sales to our top ten customers, who can vary each year, accounted for 63%, 48% and 41% of consolidated net sales in fiscal 2021, fiscal 2020 and fiscal 2019, 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.

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, issues or liabilities, 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. We also need to utilize key personnel who may be distracted from the core 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.

If we fail to successfully integrate BNI's operations, our financial condition and results of operations could be adversely affected.

On June 1, 2021, we entered into a stock purchase agreement to acquire BNI, a privately-owned designer and manufacturer of turbomachinery products for the aerospace, cryogenic, defense and energy markets, located in Arvada, Colorado, for approximately $70,000. We may not realize every intended benefit of the acquisition which could adversely impact our results of operations. There are many challenges associated with integrating an acquisition such as BNI, including those associated with the integration of operations, retention of key management and other employees with historically different cultures and priorities, the diversion of management's attention from ongoing business concerns while addressing integration matters, retaining existing business and operational relationships including customers, suppliers and others, unanticipated issues in integrating information technology, communications and other systems, as well as unforeseen expenses associated with the integration. Further, our future results will suffer if we do not effectively manage the expanded scope of our operations as a result of our acquisition of BNI.

We may experience customer concentration risk related to strategic growth for U.S. Navy projects.

We believe our strategy to increase the penetration of U.S. Navy related opportunities may lead to U.S. Navy related projects consistently being greater than 10% of our total revenue. While these projects are spread across multiple contractors for the U.S. Navy, the end customer for these projects is the same. This concentration of business could add additional risk to us should there be a disruption, short or long term, in the funding for these projects or our participation in the U.S. Navy Nuclear Propulsion program.

The size of our contracts with the U.S. Navy may produce volatility over the short term financial results.

We believe our strategy to increase the penetration of U.S. Navy related opportunities, which are often much larger contracts than our commercial contracts, may impact our ability to effectively provide accurate investor guidance for our near term financial results. These contracts can, on occasion, be delayed before or during the revenue recognition cycle. If we are unable to reallocate the resources to other projects, we may see an increase in volatility in our near term financial results.

A significant 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 2021, 46% of our revenue was from customers located outside of the U.S. Moreover, through our subsidiaries, we maintain a sales office in China and a sales and market development office in India. 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 and/or portions of the former Soviet Union;
- the global economic impact as a result of the COVID-19 pandemic
- political relationships between the U.S. and certain countries and regions;
- differences in foreign laws, including 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 war;
- our failure to comply with U.S. laws regarding doing business in foreign jurisdictions, such as the Foreign Corrupt Practices Act; or
- other factors inherent in maintaining foreign operations.

The impact of potential changes in customs and trade policies and tariffs imposed by the U.S. and those imposed in response by other countries, including China, as well as rapidly changing trade relations, could materially and adversely affect our business and results of operations.

The U.S. government has made proposals that are intended to address trade imbalances, which include encouraging increased production in the United States. These proposals could result in increased customs duties and the renegotiation of some U.S. trade agreements. Changes in U.S. and foreign governments' trade policies have resulted and may continue to result in tariffs on imports into, and exports from, the U.S. Over the past few years, the U.S. imposed tariffs on imports from several countries, including China, Canada, the European Union and Mexico. In response, China, Canada and the European Union have proposed or implemented their own tariffs on certain exports from the U.S. into those countries. Tariffs affecting our products and product components, including raw materials we use, particularly high-end steel and steel related products, may add significant costs to us and make our products more expensive. Potential future changes in trade policies could result in customers changing their behavior in project procurement, due to uncertainty related to timely execution and/or import and export restrictions. As a result, our products could become less attractive to customers outside the U.S. due to U.S. import tariffs on our raw materials and our profit margins would be negatively impacted. Accordingly, continued tariffs may weaken relationships with certain trading partners and may adversely affect our financial performance and results of operations. When beneficial to us, we may consider alternate sourcing options, including off shore subcontracting, in order to minimize the impact of the tariffs. Because we conduct aspects of our business in China through our subsidiary, potential reductions in trade with China and diminished relationships between China and the U.S., including as a result of the recent COVID-19 pandemic, as well as the continued escalation of tariffs, could have a material adverse effect on our business and results of operations.

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

An 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 our wholly-owned Chinese subsidiary. The results of operations and future prospects of our Chinese subsidiary may be adversely affected by, among other things, changes in China's political, economic and social conditions, including as a result of the COVID-19 pandemic, changes in the relationship between China and its western trade partners, 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 the operation of our interests in China and have a material adverse effect on our business and results of operations.

Intellectual property rights are difficult to enforce in China and India, 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. Similarly, proprietary information may not be afforded the same protection in India as it is in our other major markets with more comprehensive intellectual property laws. Although we take precautions in the operations of our subsidiaries to protect our intellectual property, any local design or manufacture of products that we undertake 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 timely 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.

Regulation of foreign investment in India may adversely affect the operations of our Indian subsidiary.

Our subsidiary in India is subject to laws and regulations applicable to foreign investment in India. India regulates ownership of Indian companies by foreign entities. These regulations may apply to our funding of our Indian operating subsidiary. For example, the government of India has set out criteria for foreign investments in India, including requirements with respect to downstream investments by Indian companies owned or controlled by foreign entities and the transfer of ownership or control of Indian companies in certain industries. These requirements may adversely affect our ability to operate our Indian subsidiary. There can be no assurance that we will be able to obtain any required approvals for future acquisitions, investments or operations in India, or that we will be able to obtain such approvals on satisfactory terms.

Changes in U.S. and foreign 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, as they may be related to changes in political administration, public policy or other factors. 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 could 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.

Efforts to reduce large U.S. federal budget deficits could result in government cutbacks or shifts in focus 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 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 the awarding of an order to the completion of shipment can take three to seven years. 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. For example, the emergency spending bills related to the COVID-19 pandemic could compound the uncertainty already present in government funded programs. Since this business is expected to increase as a percentage of our overall business, such a disruption, should it occur, could adversely impact the sales and profitability of our business.

Changes in the competitive environment for U.S. Navy procurement could adversely impact our ability to grow this portion of our business.

Over the past few years, we have expanded our business and the opportunities where we bid related to U.S. Navy projects. This has increased our market share and caused an adverse share position for some of our competitors for these products. Competitor response to our market penetration is possible. Our customers may also raise concerns about their supplier concentration issues and the risk exposure related to this concentration. As the U.S. Navy is looking to expand its fleet, there is also a risk that their facilities, their supply chain or our supply chain for raw materials, may not be able to support this expansion. This could adversely impact our ability to grow this portion of our business.

Contract liabilities for large U.S. Navy contracts may be beyond our normal insurance coverage and a claim could have an adverse impact on our financial results.

We are diligent at managing ongoing risks related to projects and the requirements of our customers. Our history at managing risk provides significant evidence that our exposure and risk are minimal. In addition, we secure business insurance coverage to minimize the impact of a major failure or liability related to our customers. Due to certain U.S. government procurement policies, we may take on the risk of a liability for large U.S. Navy projects in excess of our insurance coverage and at a level which is higher than our commercial projects. A claim related to one of these projects could have an adverse impact on our financial results.

New technology used by the ships for the U.S. Navy may delay projects and may impact our ability to grow this portion of our business.

Certain U.S. Navy vessels are implementing new technologies, unrelated to any of the equipment that we provide. If there is a complication or delay to any ship caused by this new technology, it may delay the procurement and fabrication of future vessels, which could have a negative impact on our business.

Lapses in U.S. government appropriations have occurred, and any future lapses could disrupt U.S. export processing and related procedures and, as a result, may materially and adversely affect our revenue, results of operations and business.

The U.S. has previously experienced lapses in federal appropriations, which had, in the past, a short-term effect on our business. Any such future lapse (each, a "Government Shutdown") could negatively affect our ability to ship finished products to customers. We rely on federal government personnel, who are not able to perform their duties during a Government Shutdown, to conduct routine business processes related to the inspection and delivery of our products, process export licenses for us and perform other services for us that, when disrupted, may prevent us from timely shipping products outside the U.S. If we are unable to timely ship our products outside the U.S., there could be a material adverse impact on our results of operations and business. Moreover, our inability to ship products, or the perception by customers that we might not be able to timely ship our products in the future, may cause such customers to look to foreign competitors to fulfill their demand. If our customers look to foreign competitors to source equipment of the type we manufacture, there could be a material adverse impact on our results of operations and business.

Near-term income statement impact from competitive contracts could adversely affect our operating results.

During weaker market periods, we may choose to be more aggressive in pricing certain competitive projects to protect or gain market share or to increase the utilization of our facilities. In these situations, it is possible that an incrementally profitable order, while increasing contribution, may be unprofitable from an accounting perspective when including fixed manufacturing costs. In these situations, we are required to recognize the financial loss at the time of order acceptance, or as soon as our cost estimates are updated, whichever occurs first. It is possible we may accumulate losses either on a large project or more than one project such that, in a short time period, for example, a reporting quarter, these losses may have a meaningful impact on the earnings of the period.

Our operating results could be adversely affected by customer contract cancellations and delays.

Adverse economic or specific project conditions can lead to a project being placed on hold or cancelled by our customers. While in fiscal 2021 we had no projects cancelled, in fiscal 2020 we had two projects cancelled. Similarly, while at March 31, 2021 we had no projects on hold, at March 31, 2020 we had two 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.

The value of our backlog as of March 31, 2021 was $137,567. Our backlog can be significantly affected by the timing of large orders. The amount of our backlog at March 31, 2021 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. We cannot predict whether cancellations will occur or accelerate in the future, and the ongoing COVID-19 pandemic may increase the risk of such cancellations. 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. In addition, we are continuing to pursue business in this end market which offers large multi-year projects which have an added risk profile beyond that of our historic customer base.

A delay, long-term extension or cancellation of any of these projects could have a material adverse effect on our business and results of operations.

Further, certain defense contracts we secure may be designated a program of highest national priority requiring production preference over commercial orders which could impact our commercial backlog and result in production delays. As a result, commercial customers could seek damages, including liquidated damages, as performance penalties and there may be a negative impact to the willingness of customers to place future orders with us due to a concern that orders may be subordinated to such contracts.

An extended downturn could adversely impact the financial stability of our customers and increase the risk of uncollectable accounts receivables.

Our customers participate in cyclical markets, such as petroleum refining, petrochemicals and alternate energy. The financial strength of our customers can be impacted by a severe or lengthy downturn in these markets, including any downturn related to the COVID-19 pandemic. This could lead to additional risk in our ability to collect outstanding accounts receivables. We attempt to mitigate this risk with the utilization of progress payments for many projects, but certain industries, end markets and geographies are not as willing to make progress payments. Certain projects require a small portion of the total payments to be held until the customer's facility is fully operational, which can be in excess of one year beyond our delivery of equipment to them. This additional time may add risk to our ability to collect on the outstanding accounts receivables.

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, estimating errors, 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 may decrease or losses may be incurred which, in turn, could have a material adverse effect on our business and results of operations. For our U.S. Navy projects, these fixed priced contracts have order to shipment periods which can exceed five years. This additional time-based risk, which we believe is manageable, nevertheless increases the likelihood of cost fluctuation, which could have a material adverse effect on our business and results of operation.

Given our size and specialization of our business, if we lose any member of our management team and we experience difficulty in finding a qualified replacement, our business could 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.

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. While we have an in-house weld training program, if we are unable to retain, hire or train an adequate number of individuals with high-end welding capability, this could adversely 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. Furthermore, should we not be able to expand our production workforce, we would expect to increase the amount of outsourced fabrication which is likely to result in higher costs and lower margins.

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 and our historical experience may not reflect 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 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 upon 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 upon 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, and volatility in foreign currency exchange rates has generally increased in connection with the COVID-19 pandemic. 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. Strength of the U.S. dollar compared with the Euro or Asian currencies may put us in a less competitive position. At the outset of the COVID-19 pandemic, the U.S. dollar saw relative strengthening in relation to the Euro and Asian currencies, however, as the pandemic has continued, the relative strength of the U.S. dollar has increased in volatility. 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, 2021, we held no forward foreign currency exchange contracts.

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. Threats to these systems, and the laws and regulations governing security of data, including personal data, on information systems and otherwise held by companies is evolving and adding layers of complexity in the form of new requirements and increasing costs of attempting to protect information systems and data and complying with new cybersecurity regulations. Information systems are subject to numerous and evolving cybersecurity threats and sophisticated computer crimes, which pose a risk to the stability and security of our information systems, computer technology, and business. Global cybersecurity threats can range from uncoordinated individual attempts to gain unauthorized access to our information systems and computer technology to sophisticated and targeted measures known as advanced persistent threats. The techniques used in these attacks change frequently and may be difficult to detect for periods of time and we may face difficulties in anticipating and implementing adequate preventative measures. 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. Further, our technology resources may be strained due to the increase in the number of remote users in response to the COVID-19 pandemic. 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.

Many of our large international customers are nationalized or state-owned businesses. 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.

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 some 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:

- <u>We could issue shares of preferred stock with terms averse to our common stock</u>. 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.

- <u>Only a minority of our directors may be elected in a given year</u>. 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.

- <u>Our bylaws contain advance notice requirements</u>. 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.

- <u>Our certificate of incorporation requires supermajority voting to approve a change of control transaction</u>. 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.

- <u>Amendments to our certificate of incorporation require supermajority voting</u>. 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 42 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. 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. GIPL, located in Ahmedabad, India, serves as a sales and market development office focusing on the refining, petrochemical and fertilizer markets. We lease a sales and marketing office of approximately 777 square feet in Ahmedabad, India.

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 17 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 26, 2021, there were 9,950 shares of our common stock outstanding that were held by approximately 128 stockholders of record.

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. Our Board of Directors declared dividends per share of $0.11 for each of the four quarters of fiscal 2021. While we anticipate that we will continue to pay quarterly cash dividends in the future, there can be no assurance that we will pay such 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 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, 2021 and May 31, 2021 we did not have any funded debt outstanding. More information regarding our senior credit facility can be found in Note 9 to the Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Item 6. Reserved

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. Our energy markets include oil refining, cogeneration, and alternative power. For the defense industry, our equipment is used in nuclear propulsion power systems for the U.S. Navy. For the chemical and petrochemical industries, our equipment is used in fertilizer, ethylene, methanol and downstream chemical facilities.

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

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

On June 1, 2021, we entered into a stock purchase agreement to acquire Barber-Nichols, Inc. ("BNI"), a privately-owned designer and manufacturer of turbomachinery products for the aerospace, cryogenic, defense and energy markets, located in Arvada, Colorado. We believe that this acquisition will further our growth strategy through market and product diversification, broaden our offerings to the defense and energy markets and strengthen our presence in the defense sector.

This management's discussion and analysis of financial condition and results of operations for the fiscal year ended March 31, 2021 omits a comparative discussion regarding the fiscal year ended March 31, 2019. Such information is located in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Key Results

Key results for our fiscal year ended March 31, 2021, which we refer to as "fiscal 2021" include:

- Net sales for fiscal 2021 were $97,489, up 8% compared with $90,604 for the fiscal year ended March 31, 2020, which we refer to as "fiscal 2020."

- Net income and income per diluted share for fiscal 2021, were $2,374 and $0.24, respectively, compared with net income and income per diluted share of $1,872 and $0.19, respectively, for fiscal 2020.

- Operating cash flow for fiscal 2021 was ($1,722), down from $1,239 in fiscal 2020.

- Orders received in fiscal 2021 were $121,619 compared with fiscal 2020, when orders received were $80,034.

- Backlog on March 31, 2021 was $137,567 compared with backlog of $112,389 on March 31, 2020.

- Gross profit and operating margins for fiscal 2021 were 21.0% and 3.1%, respectively, compared with 20.0% and 0.7%, respectively, for fiscal 2020.

- In fiscal 2021, $4,391 was returned to shareholders as dividends compared with $4,250 in fiscal 2020.

- Cash and cash equivalents and short-term investments at March 31, 2021 were $65,032 compared with $73,003 as of March 31, 2020, a decrease of $7,971.

- At March 31, 2021, we had a solid balance sheet that was free of bank debt and which we believe provides us with the financial flexibility to continue to pursue our business and acquisition strategies.

- On June 1, 2021 we utilized $41,150 of cash and investments and entered into new credit agreements which provide $57,500 of borrowing capacity, including a $20,000 term loan, to acquire BNI. We also reissued approximately 610 treasury shares with a value of approximately $8,963.

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 continuing impacts of, and risks caused by, the COVID-19 pandemic on our business operations, our customers and our markets;
- the current and future economic environments, including the volatility associated with the COVID-19 pandemic, affecting us and the markets we serve;
- our ability to successfully integrate and operate BNI;
- expectations regarding investments in new projects by our customers;
- sources of revenue and anticipated revenue, including the contribution from anticipated growth;
- expectations regarding achievement of revenue and profitability;
- plans for future products and services and for enhancements to existing products and services;
- our operations in foreign countries;
- political instability in regions in which our customers are located;
- tariffs and trade relations between the United States and its trading partners;
- our ability to affect our growth and acquisition strategy;
- our ability to maintain or expand work for the U.S. Navy;
- our ability to successfully execute our existing contracts;
- estimates regarding our liquidity and capital requirements;
- timing of conversion of backlog to sales;
- production preferences directed toward DX or DO related orders;
- our ability to attract or retain customers;
- the outcome of any existing or future litigation; and
- our ability to increase our productivity and capacity.

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

Undue reliance should not be placed on our forward-looking statements. All forward-looking statements included in this Form 10-K are made only as of the date indicated or as of the date of this Form 10-K. 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. New risks and uncertainties arise from time to time and we cannot predict these events or how they may affect us and cause actual results to differ materially from those expressed or implied by our forward-looking statements. Therefore, you should not rely on our forward-looking statements as predictions of future events. When considering these risks, uncertainties and assumptions, you should keep in mind the cautionary statements contained in this report and any documents incorporated herein by reference. You should read this document and the documents that we reference in this Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

Current Market Conditions

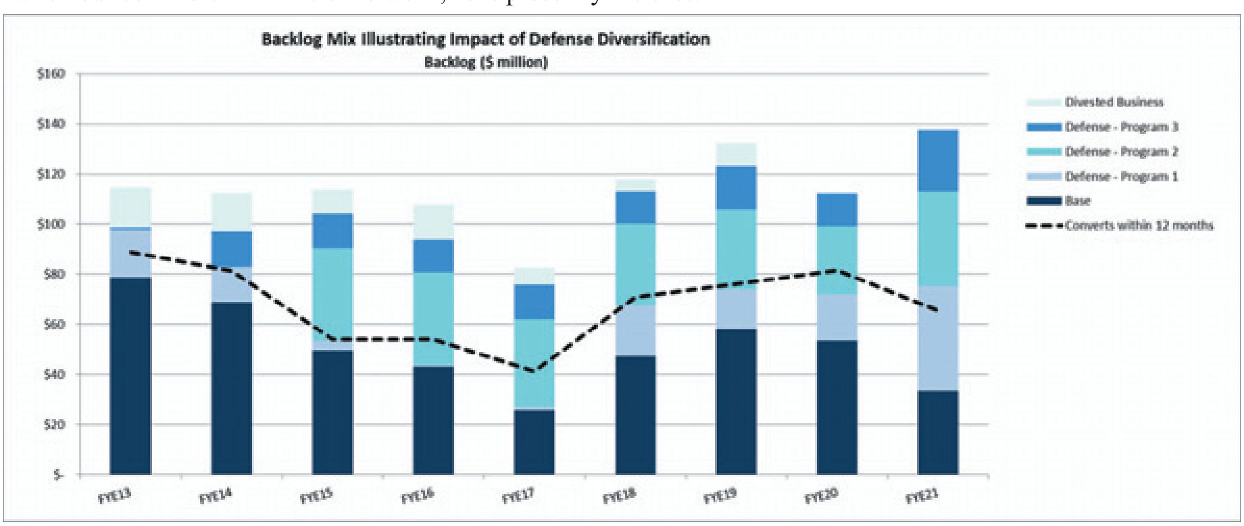
The ongoing slowdown in our energy and petrochemical markets (which we refer to as our "commercial markets") began during the latter part of fiscal 2020 and was caused primarily by an excess supply of crude oil, which had a negative impact on commodity pricing. This caused more measured investment in maintenance and capital projects within our commercial markets. The economic slowdown and corresponding reductions in demand for transportation fuel and petrochemical products caused by the ongoing COVID-19 global pandemic further adversely affected our commercial markets. As a result of these combined adverse supply-side and demand-side disruptions, our commercial customers have significantly reduced their operating budgets for the types of products and services we provide. The timing and catalyst for a recovery in our commercial markets remains uncertain. Accordingly, we believe that in the near term the quantity of projects available for us to compete for will be fewer and that the pricing environment will remain challenging.

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

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

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

The chart below shows the impact of our successful diversification strategy into multiple U.S. Navy defense platforms. Our U.S. Navy defense business began with our entry into the nuclear carrier program. We subsequently expanded into both the Virginia and Columbia class nuclear submarine programs. The defense market made up 76% of our total backlog at March 31, 2021. Each vessel platform has made up at least 10% of our total backlog for the past three years. We believe this diversification is especially beneficial when our commercial markets are weak, as is presently the case.



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,	
	2021	2020
Net sales	$ 97,489	$ 90,604
Gross profit	$ 20,469	$ 18,148
Gross profit margin	21.0%	20.0%
SG&A expense [1]	$ 17,471	$ 16,879
SG&A as a percent of sales	17.9%	18.6%
Net income	$ 2,374	$ 1,872
Diluted income per share	$ 0.24	$ 0.19
Total assets	$ 144,280	$ 148,120
Total assets excluding cash, cash equivalents and investments	$ 79,248	$ 75,117

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

Fiscal 2021 Compared with Fiscal 2020

Sales for fiscal 2021 were $97,489, up 8% as compared with sales of $90,604 for fiscal 2021. Domestic sales were $52,724 or 54% of total sales, down from $58,042 or 64% of total sales in fiscal 2020. Domestic sales decreased $5,318, or 9%, compared with fiscal year 2020. International sales accounted for $44,765, or 46% of total sales, for fiscal 2021, up from $32,562 or 36% of total sales in fiscal 2020. International sales increased $12,203, or 37% compared with fiscal 2020. By market, sales for fiscal 2021 were 41% to the refining industry (up from 37% in fiscal 2020), 24% to the chemical and petrochemical industries (down from 34% in fiscal 2020), 25% from the defense industry (U.S. Navy) (up from 16% in fiscal 2020), and 10% to other commercial and industrial markets (down from 13% in fiscal 2020).

The COVID-19 pandemic impacted our financial results in fiscal 2021. We estimated that revenue was adversely impacted by COVID-19 by approximately $5,500. This included the benefit of approximately $5,000 which moved into fiscal 2021 from fiscal 2020 related to a project fabricated in China which was delayed in late fiscal 2020. Across fiscal 2021, especially in the first quarter, we had production capacity impacted at our Batavia, New York facility. In the first quarter of fiscal 2021, we limited production at our production facility in Batavia, New York and averaged approximately 50% of capacity during that quarter. We had additional impacts across all quarters, although not to the extent we saw in the first quarter. We are committed to diligently protecting our workforce while endeavoring to minimize any unfavorable impact to our business and our customers.

Our gross margin for fiscal 2021 was 21.0% compared with 20.0% for fiscal 2020. The increase in gross margin was primarily due to lower production costs. Gross profit for fiscal 2021 increased $2,321, or 13%, compared with fiscal 2020 on higher volume and higher gross margin as noted above, compared with fiscal 2020.

SG&A expense for fiscal 2021 was $17,471, up 4%, or $592, compared with $16,879 in fiscal 2020. SG&A as a percentage of sales in fiscal 2021 was 17.9% of sales compared with 18.6% of sales in fiscal 2020. SG&A increases were primarily due to increased variable compensation and outside sales agent commissions, partly offset by lower selling overhead expenses and internal sales agent commission costs.

Interest income for fiscal 2021 was $167, down from $1,324 in fiscal 2020. Interest expense in fiscal 2021 was $11 compared with $12 in fiscal 2020.

Our effective tax rate in fiscal 2021 was 27% compared with 19% in fiscal 2020. The increase in tax rate was primarily due to the mix of earnings by geography, which were in higher tax cost areas as compared with the prior year.

Net income and income per diluted share for fiscal 2021, were $2,374 and $0.24, respectively, compared with net income and income per diluted share of $1,872 and $0.19, respectively, for fiscal 2020.

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, 2021	March 31, 2020
Cash and investments	$ 65,032	$ 73,003
Working capital(1)	76,675	77,443
Working capital ratio(2)	2.8	2.6
Working capital excluding cash and investments	11,643	4,440
Working capital excluding cash and investments as a percent of net sales	11.9%	4.9%

(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 assess our liquidity and overall financial strength.

Net cash used by operating activities for fiscal 2021 was $1,722, compared with cash generated of $1,239 for fiscal 2020. The $2,961 decrease in cash generated was due to a large cash usage from customer deposits. These were partly offset by cash generations for inventory and accrued compensation.

Capital spending in fiscal 2021 was $2,158, compared with $2,417 in fiscal 2020. Capital expenditures in each of fiscal 2021 and fiscal 2020 were approximately 80% for facilities along with machinery and equipment and the remaining 20% for all other items.

Dividend payments were $4,391 in fiscal 2021, compared with $4,250 in fiscal 2020.

Cash and investments were $65,032 at March 31, 2021, compared with $73,003 at March 31, 2020, down $7,971 or 11%.

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 certificates of deposit are used to securitize our outstanding letters of credit, which reduces our cost on those letters of credit. Approximately 90% of our cash and investments are held in the U.S. The remaining 10% is invested in our China operations.

Capital expenditures for the fiscal year ending March 31, 2022, which we refer to as "fiscal 2022," are expected to be between approximately $2,800 and $3,000. Approximately 90% of our fiscal 2022 capital expenditures are expected to be for machinery and equipment, with the remaining amounts expected to be used for other items.

Our revolving credit facility with JP Morgan Chase, N.A. ("JP Morgan Chase") provides us with a line of credit of $22,000, which includes a separate line of $7,000 for letters of credit and bank guarantees. In addition, our JP Morgan Chase agreement allows us to increase the line of credit, at our discretion, up to another $15,000, for total availability of $37,000. Borrowings under this credit facility are secured by all of our assets. We also had a $15,000 letter of credit facility with HSBC, N.A. ("HSBC") at March 31, 2021 secured by certain of our deposit accounts with HSBC. Letters of credit outstanding on March 31, 2021 and March 31, 2020 were $11,567 and $13,328, respectively. The outstanding letters of credit as of March 31, 2021 were issued by JP Morgan Chase and HSBC. There were no other amounts outstanding on our credit facilities at March 31, 2021 and March 31, 2020. The borrowing rate under our JP Morgan Chase facility as of March 31, 2021 was the bank's prime rate, or 3.25%. Availability under the JP Morgan Chase and HSBC lines of credit was $25,433 and $21,672 at March 31, 2021 and March 31, 2020, respectively.

We did not have any off-balance sheet arrangements as of March 31, 2021 and 2020, other than letters of credit incurred in the ordinary course of business.

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

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, 2021	March 31, 2020
$ 97,929	$ 96,724

Fiscal 2021 Compared with Fiscal 2020

Stockholders' equity increased $1,205 or 1%, at March 31, 2021 compared with March 31, 2020.

On March 31, 2021, our net book value per share was $9.83, up from $9.79 at March 31, 2020.

Contractual Obligations

As of March 31, 2021, 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)	$ 63	$ 26	$ 37	$ —	$ —
Operating leases(1)	88	49	39	—	—
Pension, supplemental executive retirement and postretirement benefits(2)	72	72	—	—	—
Total	$ 223	$ 147	$ 76	$ —	$ —

(1) For additional information, see Note 8 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 2022 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 plans for fiscal 2022.

Orders and Backlog

Management uses orders and backlog as measures of our current and future business and financial performance. Orders in fiscal 2021 increased 52% to $121,619 from $80,034 in fiscal 2020. 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 Notes 1 and 2 to the consolidated financial statements contained in Item 8 of Part II of this Annual Report on Form 10-K.

Domestic orders were 73%, or $89,283, and international orders were 27%, or $32,336, of our total orders in fiscal 2021. This compared with domestic orders of $43,045, or 54% of total orders, and international orders of $36,989, or 46% of our total orders in fiscal 2020. Domestic orders increased by $46,238, or 107%. This increase was due to a large increase in defense (U.S. Navy) orders, partly offset by lower domestic commercial orders. Net international orders decreased by $4,653, or 13% in fiscal 2021.

Backlog was $137,567 at March 31, 2021, up 22% compared with $112,389 at March 31, 2020. 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. We had no projects cancelled in fiscal 2021. Approximately 40% to 45% of orders currently in our backlog are expected to be converted to sales within one year. At March 31, 2021, approximately 16% of our backlog was attributed to equipment for refinery project work, 6% for chemical and petrochemical projects, 76% for U.S. Navy projects and 2% for other industrial or commercial applications. At March 31, 2020, approximately 27% of our backlog was attributed to equipment for refinery project work, 17% for chemical and petrochemical projects, 52% for U.S. Navy projects and 4% for other commercial nuclear energy, other industrial or commercial applications. At March 31, 2021, we had no projects on hold. At March 31, 2020, we had two projects totaling $562 on hold.

Recent Developments

On June 1, 2021, we acquired Barber-Nichols, Inc. ("BNI"), a privately-owned designer and manufacturer of turbomachinery products for the aerospace, cryogenic, defense and energy markets and is located in Arvada, Colorado. We believe that this acquisition furthers our growth strategy through market and product diversification, broadens its offerings to the defense and energy markets and strengthens its presence in the defense sector.

Under the terms of the stock purchase agreement, the purchase price of $70,113 is comprised of 610 shares of our common stock, representing a value of approximately $8,963, and cash consideration of $61,150, subject to certain potential adjustments, including a customary working capital adjustment. The stock purchase agreement also includes a contingent earn-out dependent upon certain financial measures of BNI post-acquisition, in which the sellers are eligible to receive up to $14,000 in additional cash consideration.

On June 1, 2021, we entered into a $20,000 five-year term loan with Bank of America. The term loan requires monthly principal payments of $167 through June 1, 2026, with the remaining principal amount due on the maturity date. The interest rate on the term loan is the applicable Bloomberg Short-Term Bank Yield Index ("BSBY") plus 1.50%, subject to a 0.00% floor. In addition, on June 1, 2021, we entered into a revolving credit facility with Bank of America that provides a $30,000 line of credit, including letters of credit and bank guarantees, expandable at our option and the bank's approval at any time up to $40,000. The agreement has a five-year term. Amounts outstanding under the facility agreement will bear interest at a rate equal to BSBY plus 1.50%, subject to a 0.00% floor. Outstanding letters of credit under the agreement are subject to a fee of 1.50%. The upfront fee for each of the term loan and revolving credit facility is .20% of the committed facilities and amounts available for borrowing under the revolving credit facility are subject to an unused commitment fee of .25% Under the term loan agreement and revolving credit facility, we covenant to maintain a maximum total leverage ratio, as defined in such agreements, of 3.0 to 1.0, a minimum fixed charge coverage ratio, as defined in such agreements, of 1.20 to 1.0 and minimum margined assets, as defined in such agreements, of 100% of total amounts outstanding on the revolving credit facility, including letters of credit.

On June, 1, 2021, we entered into an agreement to amend the letter of credit facility agreement with HSBC Bank USA, N.A. and decreased our line of credit from $15,000 to $7,500. Under the amended agreement, we incur an annual facility fee of $5 and outstanding letters of credit are subject to a fee of between .75% and .85%, depending on the term of the letter of credit. Interest is payable on the principal amounts of unreimbursed letter of credit draws under the facility at a rate of 3% plus the bank's prime rate.

Outlook

Capital spending in the commercial markets we serve began to decrease during the second half of fiscal 2020 and the pace of activity further materially contracted as COVID-19 became a global pandemic in the fourth quarter of fiscal 2020. Our weak commercial markets continued into fiscal 2021 and we are not seeing a recovery as we enter fiscal 2022. This is particularly evident in North America. As a result, our overall bidding activity has slowed. There has also been a shift toward more opportunities in emerging markets. Our strong order level from the defense industry (U.S. Navy) increased our backlog for defense projects to $104,127 on March 31, 2021 from $58,843 on March 31, 2020. At March 31, 2021, 76% of our backlog was for the defense industry, specifically the U.S. Navy. Defense programs in backlog are planned to deliver $25,000 to $30,000 of revenue in fiscal 2022. The sales to the defense industry were $23,939 in fiscal 2021. We expect that our successful acquisition of BNI will increase and diversify our market presence, including enhancing our concentration on the defense markets, and will be accretive to our financial results in fiscal 2022.

Near term opportunities in the global energy and petrochemical markets have slowed significantly due to the combined impact of the COVID-19 pandemic and the geopolitical imbalance of supply, as previously discussed. Although we do not know when the COVID-19 pandemic will end or when the supply imbalance will subside, we continue to believe the energy markets will improve. In addition, we believe the petrochemical markets provide long-term growth opportunities for our products and services. Coupled with our diversification strategy into the defense industry, we remain confident in our ability to achieve the long-term goal of significantly growing our business. We have invested in capacity to serve our customers in our commercial markets as well as to expand the work we do for the U.S. Navy, including through our acquisition of BNI. We intend to continue to look for organic growth opportunities as well as acquisitions or other business combinations that we believe will allow us to expand our presence in both our existing and ancillary markets.

Our expectations for sales and profitability assume that we are able to operate our production facility in Batavia, New York at or near normal ("pre-COVID-19") capacity throughout fiscal 2022. We project that approximately 40% to 45% of our $137,567 March 31, 2021 backlog will convert to sales in fiscal 2022. We expect the remaining backlog will convert beyond fiscal 2022, which includes a combination of U.S. Navy orders that have a long conversion cycle (up to five years) as well as certain commercial orders, the conversion of which has been extended by our customers. We had no projects cancelled in fiscal 2021. At March 31, 2021, we had no projects put on hold by our customers.

Revenue in fiscal 2022 is expected to be $130,000 to $140,000, inclusive of BNI's revenue for the ten-month period which is expected to be $45,000 to $48,000. Adjusted earnings before net interest income, income taxes, depreciation and amortization for the combined business is expected to be approximately $7,000 to $9,000.

Contingencies and Commitments

We have been named as a defendant in lawsuits alleging personal injury from exposure to asbestos allegedly contained in, or accompanying, our products. We are a co-defendant with numerous other defendants in these lawsuits and intend to vigorously defend ourselves against these claims. The claims 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. We cannot provide any assurances that any pending or future matters will be resolved in the same manner as previous lawsuits.

As of March 31, 2021, 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, or may become, a party to cannot be determined and an estimate of the reasonably possible loss or range of loss cannot be made for the majority of claims, we do not believe that the outcomes, either individually or in the aggregate, will have a material adverse effect on our results of operations, financial position or cash flows.

Critical Accounting Policies

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. The Company accounts for revenue in accordance with Accounting Standard Codification 606, "Revenue from Contracts with Customers" ("ASC 606").

We recognize revenue on all contracts when control of the product is transferred to the customer. Control is generally transferred when products are shipped, title is transferred, significant risks of ownership have transferred, we have rights to payment, and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue on the majority of our contracts, as measured by number of contracts, is recognized upon shipment to the customer, revenue on larger contracts, which are fewer in number but generally represent the majority of revenue, is recognized over time as these contracts meet specific criteria in ASC 606. Revenue from contracts that is recognized upon shipment accounted for approximately 40% of revenue in fiscal 2021. Revenue from contracts that is recognized over time accounted for approximately 60% of revenue in fiscal 2021. We recognize revenue over time when contract performance results in the creation of a product for which we do not have an alternative use and the contract includes an enforceable right to payment in an amount that corresponds directly with the value of the performance completed. To measure progress towards completion on performance obligations for which revenue is recognized over time we utilize an input method based upon a ratio of direct labor hours incurred to date to management's estimate of the total labor hours to be incurred on each contract or an output method based upon completion of operational milestones, depending upon the nature of the contract.

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 the FTSE Pension Liability Above-Median AA-Index. 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.

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 over time, accounting for contingencies, under which we accrue a loss when it is probable that a liability has been incurred and the amount can be reasonably estimated, 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 an over-time recognition method. The key estimate for the over-time recognition model 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.

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 2021 was 3.44% for our defined benefit pension plans and 3.01% 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 2021 net periodic benefit expense for our defined benefit pension plans and other postretirement benefit plan by approximately $352 and $0, respectively.

The expected return on plan assets assumption of 6.5% 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 2021 net periodic pension expense by approximately $193.

During fiscal 2021 and fiscal 2020, the pension plan released liabilities for vested benefits of certain participants through the purchase of nonparticipating annuity contracts with a third-party insurance company. As a result of these transactions, in fiscal 2021 and fiscal 2020, the projected benefit obligation and plan assets each decreased $1,477 and $1,420, respectively.

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, 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. For discussion of the newly issued accounting pronouncements see "Accounting and reporting changes" in Note 1 to the Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

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 and price 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 2021 were 46% of total sales, up from 36% of sales in fiscal 2020. Operating in markets throughout the world exposes us to movements in currency exchange rates, including the recent increased volatility in foreign currency exchange rates resulting from the COVID-19 pandemic. 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 fiscal 2021, substantially all sales by us and our wholly owned subsidiaries, for which we were paid, were denominated in the local currency of the respective subsidiary (U.S. dollars or Chinese RMB).

We have limited exposure to foreign currency purchases. In fiscal 2021, 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 2021 and as of March 31, 2021, 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 our competitors are able to offer products similar to ours at lower prices. In extreme market downturns, such as we recently experienced, we typically see depressed price levels. 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.

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	2021	2020	2019
	(Amounts in thousands, except per share data)		
Net sales	$ 97,489	$ 90,604	$ 91,831
Cost of products sold	77,020	72,456	69,922
Gross profit	20,469	18,148	21,909
Other expenses and income:			
Selling, general and administrative	17,471	16,879	17,878
Goodwill and other impairments	—	—	6,449
Other expense	—	617	—
Other income	(113)	(348)	(823)
Interest income	(167)	(1,324)	(1,462)
Interest expense	11	12	12
Total other expenses and income	17,202	15,836	22,054
Income (loss) before provision for income taxes	3,267	2,312	(145)
Provision for income taxes	893	440	163
Net income (loss)	$ 2,374	$ 1,872	$ (308)
Per share data:			
Basic:			
Net income (loss)	$ 0.24	$ 0.19	$ (0.03)
Diluted:			
Net income (loss)	$ 0.24	$ 0.19	$ (0.03)
Average common shares outstanding:			
Basic	9,959	9,876	9,823
Diluted	9,959	9,879	9,823
Dividends declared per share	$ 0.44	$ 0.43	$ 0.39

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended March 31,		
	2021	2020	2019
		(Amounts in thousands)	
Net income (loss)	$ 2,374	$ 1,872	$ (308)
Other comprehensive income (loss):			
Foreign currency translation adjustment	385	(198)	(235)
Defined benefit pension and other postretirement plans, net of income tax benefit of $509, $(153), and $(63), for the years ended March 31, 2021, 2020 and 2019, respectively	1,774	(525)	(348)
Total other comprehensive income (loss)	2,159	(723)	(583)
Total comprehensive income (loss)	$ 4,533	$ 1,149	$ (891)

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	March 31, 2021	March 31, 2020
	(Amounts in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 59,532	$ 32,955
Investments	5,500	40,048
Trade accounts receivable, net of allowances ($29 and $33 at March 31, 2021 and 2020, respectively)	17,378	15,400
Unbilled revenue	19,994	14,592
Inventories	17,332	22,291
Prepaid expenses and other current assets	512	906
Income taxes receivable	—	485
Total current assets	120,248	126,677
Property, plant and equipment, net	17,618	17,587
Prepaid pension asset	6,216	3,460
Operating lease assets	95	243
Other assets	103	153
Total assets	$ 144,280	$ 148,120
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of finance lease obligations	$ 21	$ 40
Accounts payable	17,972	14,253
Accrued compensation	6,106	4,453
Accrued expenses and other current liabilities	4,628	3,352
Customer deposits	14,059	26,983
Operating lease liabilities	46	153
Income taxes payable	741	—
Total current liabilities	43,573	49,234
Finance lease obligations	34	55
Operating lease liabilities	37	82
Deferred income tax liability	635	721
Accrued pension liability	1,557	747
Accrued postretirement benefits	515	557
Total liabilities	46,351	51,396
Commitments and contingencies (Notes 8 and 17)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500 shares authorized		
Common stock, $.10 par value, 25,500 shares authorized; 10,748 and 10,689 shares issued and 9,959 and 9,881 shares outstanding at March 31, 2021 and 2020, respectively	1,075	1,069
Capital in excess of par value	27,272	26,361
Retained earnings	89,372	91,389
Accumulated other comprehensive loss	(7,397)	(9,556)
Treasury stock (790 and 808 shares at March 31, 2021 and 2020, respectively)	(12,393)	(12,539)
Total stockholders' equity	97,929	96,724
Total liabilities and stockholders' equity	$ 144,280	$ 148,120

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31, 2021	2020	2019
	(Dollar amounts in thousands)		
Operating activities:			
Net income (loss)	$ 2,374	$ 1,872	$ (308)
Adjustments to reconcile net income (loss) to net cash (used) provided by operating activities:			
Depreciation	1,945	1,957	1,968
Amortization	—	11	237
Amortization of unrecognized prior service cost and actuarial losses	1,066	997	875
Goodwill and other impairments	184	—	6,449
Equity-based compensation expense	864	975	1,069
(Gain) loss on disposal or sale of property, plant and equipment	2	(1)	30
Loss on sale of Energy Steel & Supply Co.	—	181	—
Deferred income taxes	(561)	(287)	(159)
(Increase) decrease in operating assets:			
Accounts receivable	(1,791)	2,044	(1,227)
Unbilled revenue	(5,298)	(7,070)	(2,519)
Inventories	5,185	2,279	(2,068)
Income taxes receivable	1,215	588	396
Prepaid expenses and other current and non-current assets	416	358	(576)
Operating lease assets	155	214	—
Prepaid pension asset	(841)	(871)	(1,181)
Increase (decrease) in operating liabilities:			
Accounts payable	3,556	1,826	(2,572)
Accrued compensation, accrued expenses and other current and non-current liabilities	3,101	(52)	1,118
Customer deposits	(13,206)	(3,683)	6,328
Operating lease liabilities	(158)	(140)	—
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	70	41	57
Net cash (used) provided by operating activities	(1,722)	1,239	7,917
Investing activities:			
Purchase of property, plant and equipment	(2,158)	(2,417)	(2,138)
Proceeds from disposal of property, plant and equipment	7	12	—
Proceeds from the sale of Energy Steel & Supply Co.	—	602	—
Purchase of investments	(42,603)	(181,462)	(115,342)
Redemption of investments at maturity	77,151	204,146	88,633
Net cash provided (used) by investing activities	32,397	20,881	(28,847)
Financing activities:			
Principal repayments on finance lease obligations	(40)	(51)	(97)
Principal repayments on long-term debt	(4,599)	—	—
Proceeds from the issuance of long-term debt	4,599	—	—
Issuance of common stock	—	24	307
Dividends paid	(4,391)	(4,250)	(3,834)
Purchase of treasury stock	(23)	(230)	(146)
Net cash used by financing activities	(4,454)	(4,507)	(3,770)
Effect of exchange rate changes on cash	356	(231)	(183)
Net increase (decrease) in cash and cash equivalents, including cash classified within current assets held for sale	26,577	17,382	(24,883)
Net decrease (increase) in cash classified within current assets held for sale	—	552	(552)
Net increase (decrease) in cash and cash equivalents	26,577	17,934	(25,435)
Cash and cash equivalents at beginning of year	32,955	15,021	40,456
Cash and cash equivalents at end of year	$ 59,532	$ 32,955	$ 15,021

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended March 31, 2021, 2020 and 2019
(Dollar and share amounts in thousands)

	Common Stock		Capital in		Accumulated		Total
	Shares	Par Value	Excess of Par Value	Retained Earnings	Other Comprehensive Loss	Treasury Stock	Stockholders' Equity
Balance at April 1, 2018	10,579	$ 1,058	$ 23,826	$ 99,011	$ (8,250)	$(12,296)	$ 103,349
Cumulative effect of change in accounting principle				(1,022)			(1,022)
Comprehensive loss				(308)	(583)		(891)
Issuance of shares	72	7	300				307
Forfeiture of shares	(1)	—	—				—
Dividends				(3,834)			(3,834)
Recognition of equity-based compensation expense			1,069				1,069
Purchase of treasury stock						(146)	(146)
Issuance of treasury stock			82			52	134
Balance at March 31, 2019	10,650	1,065	25,277	93,847	(8,833)	(12,390)	98,966
Cumulative effect of change in accounting principle				(80)			(80)
Comprehensive income				1,872	(723)		1,149
Issuance of shares	84	8	16				24
Forfeiture of shares	(45)	(4)	4				—
Dividends				(4,250)			(4,250)
Recognition of equity-based compensation expense			975				975
Purchase of treasury stock						(230)	(230)
Issuance of treasury stock			89			81	170
Balance at March 31, 2020	10,689	1,069	26,361	91,389	(9,556)	(12,539)	96,724
Comprehensive income				2,374	2,159		4,533
Issuance of shares	113	11	(11)				—
Forfeiture of shares	(54)	(5)	5				—
Dividends				(4,391)			(4,391)
Recognition of equity-based compensation expense			864				864
Purchase of treasury stock						(23)	(23)
Issuance of treasury stock			53			169	222
Balance at March 31, 2021	10,748	$ 1,075	$ 27,272	$ 89,372	$ (7,397)	$(12,393)	$ 97,929

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 energy, defense, chemical and petrochemical industries. During the fiscal year ended March 31, 2020 the Company sold its wholly-owned subsidiary, Energy Steel & Supply Co. ("Energy Steel"), located in Lapeer, Michigan. The accompanying Consolidated Financial Statements include the results of operations of Energy Steel for the period April 1, 2018 through June 23, 2019. During the fiscal year ended March 31, 2019, the Company established Graham India Private Limited ("GIPL") as a wholly-owned subsidiary. GIPL, located in Ahmedabad, India, serves as a sales and market development office focusing on the refining, petrochemical and fertilizer markets. The Company's significant accounting policies are set forth below.

The Company's fiscal years ended March 31, 2021, 2020 and 2019 are referred to as "fiscal 2021," "fiscal 2020" and "fiscal 2019," respectively.

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Energy Steel, located in Lapeer, Michigan, Graham Vacuum and Heat Transfer Technology (Suzhou) Co., Ltd., located in China, and GIPL, located in India. 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

The Company accounts for revenue in accordance with Accounting Standard Codification 606, "Revenue from Contracts with Customers" ("ASC 606").

The Company recognizes revenue on all contracts when control of the product is transferred to the customer. Control is generally transferred when products are shipped, title is transferred, significant risks of ownership have transferred, the Company has rights to payment, and rewards of ownership pass to the customer. Customer acceptance may also be a factor in determining whether control of the product has transferred. Although revenue on the majority of the Company's contracts, as measured by number of contracts, is recognized upon shipment to the customer, revenue on larger contracts, which are fewer in number but generally represent the majority of revenue, is recognized over time as these contracts meet specific criteria in ASC 606.

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. 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, 2021 are scheduled to mature on or before June 24, 2021.

Inventories

Inventories are stated at the lower of cost or net realizable value, using the average cost method. Unbilled revenue (contract assets) in the Consolidated Balance Sheets represents revenue recognized that has not been billed to customers on contracts in which revenue is recognized over time. All progress payments exceeding unbilled revenue are presented as customer deposits (contract liabilities) in the Consolidated Balance Sheets.

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 three 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.

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 a weighted combination of the market approach and the income approach using 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 7.

Research and development

Research and development costs are expensed as incurred. The Company incurred research and development costs of $3,367, $3,353 and $3,538 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Research and development costs are included in the line item "Cost of products 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.

Equity-based compensation

The Company records compensation costs related to equity-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 stock option awards. For service and performance based 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 fair market value of market-based performance restricted stock awards is determined using the Monte Carlo valuation model. The amount of equity-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.

Income (loss) per share data

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding and, when applicable, potential common shares outstanding during the period.

A reconciliation of the numerators and denominators of basic and diluted (loss) income per share is presented below:

	Year ended March 31,		
	2021	2020	2019
Basic income (loss) per share:			
Numerator:			
Net income (loss)	$ 2,374	$ 1,872	$ (308)
Denominator:			
Weighted average common shares outstanding	9,959	9,876	9,823
Basic income (loss) per share	$ 0.24	$ 0.19	$ (0.03)
Diluted income (loss) per share:			
Numerator:			
Net income (loss)	$ 2,374	$ 1,872	$ (308)
Denominator:			
Weighted average common shares outstanding	9,959	9,876	9,823
Stock options outstanding	—	3	—
Weighted average common and potential common shares outstanding	9,959	9,879	9,823
Diluted income (loss) per share	$ 0.24	$ 0.19	$ (0.03)

None of the options to purchase shares of common stock which totaled 37 and 39 in fiscal 2021 and fiscal 2019, respectively, were included in the computation of diluted loss per share as the affect would be anti-dilutive given their exercise price as they would not be dilutive upon issuance or due to the net losses in the fiscal year.

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 2021 and $12 in each of fiscal 2020 and fiscal 2019. In addition, income taxes paid (refunded) were $200 in fiscal 2021, $139 in fiscal 2020 and $(73) in fiscal 2019.

In fiscal 2021, fiscal 2020 and fiscal 2019, non-cash activities included pension and other postretirement benefit income (loss) adjustments, net of income tax, of $1,774, $(525) and $(348), respectively. Also, in fiscal 2021, fiscal 2020 and fiscal 2019, non-cash activities included the issuance of treasury stock valued at $222, $170 and $134, respectively, to the Company's Employee Stock Purchase Plan (See Note 13).

At March 31, 2021, 2020 and 2019, there were $173, $162 and $85, 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 2021, fiscal 2020 and fiscal 2019, capital expenditures totaling $0, $0 and $100, respectively, were financed through the issuance of capital leases.

Accumulated other comprehensive loss

Comprehensive income (loss) 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 standard 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 – Valuations 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 August 2018, the FASB issued ASU No. 2018-14, "Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans," which removes disclosures that no longer are considered cost beneficial, clarifies specific disclosure requirements and adds disclosure requirements identified as relevant for defined benefit pension and other postretirement benefit plans. This amendment is effective for fiscal years ending after December 15, 2020. The amendment requires application on a retrospective basis to all periods presented. The Company adopted the new guidance in fiscal 2021. The adoption of this ASU did not have a material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB issue ASU No. 2019-12, "Simplifying the Accounting for Income Taxes." The amended guidance simplifies the accounting for income taxes, eliminating certain exceptions to the general income tax principles, in an effort to reduce the cost and complexity of application. The amended guidance is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Earlier application is permitted. The guidance requires application on either a prospective, retrospective or modified retrospective basis, contingent on the income tax exception being applied. The Company believes the adoption of this ASU will not have a material impact on its Consolidated Financial Statements.

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 – Revenue Recognition:

The Company recognizes revenue on all contracts when control of the product is transferred to the customer. Control is generally transferred when products are shipped, title is transferred, significant risks of ownership have transferred, the Company has rights to payment, and rewards of ownership pass to the customer.

The following tables present the Company's net sales disaggregated by product line and geographic area:

	Year ended March 31,		
Product Line	2021	2020	2019
Heat transfer equipment	$ 41,133	$ 31,986	$ 24,785
Vacuum equipment	36,792	33,354	34,461
All other	19,564	25,264	32,585
Net sales	$ 97,489	$ 90,604	$ 91,831

	Year ended March 31,		
Geographic Area	2021	2020	2019
Asia	$ 25,614	$ 5,517	$ 10,292
Canada	6,538	8,907	16,602
Middle East	4,843	13,112	2,610
South America	6,202	3,783	324
U.S.	52,724	58,042	59,441
All other	1,568	1,243	2,562
Net sales	$ 97,489	$ 90,604	$ 91,831

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, or Syria.

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

Revenue on the majority of the Company's contracts, as measured by number of contracts, is recognized upon shipment to the customer, however, revenue on larger contracts, which are fewer in number but generally represent the majority of revenue, is recognized over time as these contracts meet specific criteria established in ASC 606. Revenue from contracts that is recognized upon shipment accounted for approximately 40%, 30% and 40% of revenue in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. Revenue from contracts that is recognized over time accounted for approximately 60%, 70% and 60% of revenue in fiscal 2021, fiscal 2020 and fiscal 2019, respectively. In fiscal 2021, revenue recognized over time as a percentage of total revenue was lower as compared with the prior year due to limited production on large contracts during the first quarter of fiscal 2021 as a result of the COVID-19 pandemic, as well as the completion of two large projects in China which did not meet the criteria for recognizing revenue over time. The Company recognizes revenue over time when contract performance results in the creation of a product for which the Company does not have an alternative use and the contract includes an enforceable right to payment in an amount that corresponds directly with the value of the performance completed. To measure progress towards completion on performance obligations for which revenue is recognized over time the Company utilizes an input method based upon a ratio of direct labor hours incurred to date to management's estimate of the total labor hours to be incurred on each contract or an output method based upon completion of operational milestones, depending upon the nature of the contract. The Company has established the systems and procedures essential to developing the estimates required to account for performance obligations over time. These procedures include monthly review by management of costs incurred, progress towards completion, identified risks and opportunities, sourcing determinations, changes in estimates of costs yet to be incurred, availability of materials, and execution by subcontractors. Sales and earnings are adjusted on a cumulative catch-up basis in current accounting periods based upon revisions in the contract value due to pricing changes and estimated costs at completion. Losses on contracts are recognized immediately when evident to management.

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

Net contract assets (liabilities) consisted of the following:

	March 31, 2021	March 31, 2020	Change
Unbilled revenue	$ 19,994	$ 14,592	$ 5,402
Customer deposits	(14,059)	(26,983)	12,924
Net (over) under billings	$ 5,935	$ (12,391)	$ 18,326

Contract liabilities at March 31, 2021 and 2020 include $1,603 and $3,660, respectively, of customer deposits for which the Company has an unconditional right to collect payment. Trade accounts receivable, as presented on the Consolidated Balance Sheets, includes corresponding balances at March 31, 2021 and 2020, respectively. Revenue recognized in fiscal 2021 that was included in the contract liability balance at March 31, 2020 was $20,833. Changes in the net contract liability balance during fiscal 2021 were impacted by a $5,402 increase in contract assets, of which $29,836 was due to contract progress offset by invoicing to customers of $24,434. In addition, contract liabilities decreased $12,924 driven by new customer deposits of $7,909 offset by revenue recognized in fiscal 2021 that was included in the contract liability balance at March 31, 2020.

Receivables billed but not paid under retainage provisions in the Company's customer contracts were $3,747 and $2,016 at March 31, 2021 and 2020, respectively.

Incremental costs to obtain a contract consist of sales employee and agent commissions. Commissions paid to employees and sales agents are capitalized when paid and amortized to selling, general and administrative expense when the related revenue is recognized. Capitalized costs, net of amortization, to obtain a contract were $39 and $45 at March 31, 2021 and 2020, respectively, and are included in the line item "Prepaid expenses and other current assets" in the Consolidated Balance Sheets. The related amortization expense was $600, $169 and $168 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

The Company's remaining unsatisfied performance obligations represent a measure of the total dollar value of work to be performed on contracts awarded and in progress. The Company also refers to this measure as backlog. As of March 31, 2021, the Company had remaining unsatisfied performance obligations of $137,567. The Company expects to recognize revenue on approximately 40% to 45% of the remaining performance obligations within one year, 20% to 30% in one to two years and the remaining beyond two years.

Note 3 – Asset Dispositions:

In March 2019, the Company's Board of Directors approved a plan to sell Energy Steel. Energy Steel met all of the criteria to classify its assets and liabilities as held for sale at March 31, 2019. As part of the required assessment under the held for sale guidance, the Company determined that the approximate fair value less costs to sell the operations was less than its carrying value and, as a result, an impairment loss totaling $6,449 was recorded in fiscal 2019. (See Note 6 to the Consolidated Financial Statements for further discussion.)

In fiscal 2020 the Company completed the sale of Energy Steel. Under the terms of the stock purchase agreement, the Company received proceeds of $602, subject to certain adjustments, including a customary working capital adjustment. The Company recognized a loss on the disposal of $181. In addition, in fiscal 2020 the Company incurred a bad debt charge of $98 and an inventory write down of $338 related to the bankruptcy of Westinghouse Electric Company. All of these items are included in the line item "Other expense" in the Consolidated Statement of Operations for fiscal 2020.

Note 4 – Inventories:

Major classifications of inventories are as follows:

	March 31,	
	2021	2020
Raw materials and supplies	$ 3,490	$ 3,061
Work in process	12,196	18,018
Finished products	1,646	1,212
	$ 17,332	$ 22,291

Note 5 – Property, Plant and Equipment:

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

	March 31,	
	2021	2020
Land	$ 365	$ 171
Buildings and leasehold improvements	21,095	19,393
Machinery and equipment	31,619	30,474
Construction in progress	8	1,360
	53,087	51,398
Less – accumulated depreciation and amortization	35,469	33,811
	$ 17,618	$ 17,587

Depreciation expense in fiscal 2021, fiscal 2020 and fiscal 2019 was $1,945, $1,957, and $1,968, respectively.

Note 6– Goodwill and Other Impairments:

Finite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives. Intangible amortization expense was $0, $0 and $180 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

As disclosed in Note 3, in fiscal 2019, the Company's Board of Directors approved a plan to sell Energy Steel. As a result, an impairment loss totaling $6,449 was recorded related to the disposition of Energy Steel which included impairment losses of $1,700, $2,000, $1,208, $1,222 and $319 for permits, tradename, customer relationships, goodwill and other long-lived assets, respectively. In fiscal 2020, the Company completed the sale of Energy Steel.

Note 7 – Product Warranty Liability:

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

	Year ended March 31,	
	2021	2020
Balance at beginning of year	$ 359	$ 366
Expense for product warranties	344	62
Product warranty claims paid	(77)	(69)
Balance at end of year	$ 626	$ 359

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

Note 8 - Leases:

The Company leases certain manufacturing facilities, office space, machinery and office equipment. An arrangement is considered to contain a lease if it conveys the right to use and control an identified asset for a period of time in exchange for consideration. If it is determined that an arrangement contains a lease, then a classification of a lease as operating or finance is determined by evaluating the five criteria outlined in the lease accounting guidance at inception. Leases generally have remaining terms of one year to five years, whereas leases with an initial term of twelve months or less are not recorded on the Consolidated Balance Sheets. The depreciable life of leased assets related to finance leases is limited by the expected term of the lease, unless there is a transfer of title or purchase option that the Company believes is reasonably certain of exercise. Certain leases include options to renew or terminate. Renewal options are exercisable per the discretion of the Company and vary based on the nature of each lease. The term of the lease includes renewal periods only if the Company is reasonably certain that it will exercise the renewal option. When determining if a renewal option is reasonably certain of being exercised, the Company considers several factors, including but not limited to, the cost of moving to another location, the cost of disrupting operations, whether the purpose or location of the leased asset is unique and the contractual terms associated with extending the lease. The Company's lease agreements do not contain any residual value guarantees or any material restrictive covenants and the Company does not sublease to any third parties. As of March 31, 2021, the Company did not have any material leases that have been signed but not commenced.

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

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

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

	March 31,	
	2021	2020
Finance Leases		
Weighted-average remaining lease term in years	2.41	2.81
Weighted-average discount rate	10.71%	9.71%
Operating Leases		
Weighted-average remaining lease term in years	1.84	1.98
Weighted-average discount rate	5.49%	5.49%

The components of lease expense are as follows:

	Year Ended March 31, 2020	
	2021	2020
Finance lease cost:		
Amortization of right-of-use assets	$ 22	$ 48
Interest on lease liabilities	8	12
Operating lease cost	165	229
Short-term lease cost	11	38
Total lease cost	$ 206	$ 327

Operating lease costs during fiscal 2021 and fiscal 2020 were included within cost of sales and selling, general and administrative expenses.

As of March 31, 2021, future minimum payments required under non-cancelable leases are:

	Operating Leases	Finance Leases
2022	$ 49	$ 26
2023	31	26
2024	8	11
2025	—	—
2026	—	—
Total lease payments	88	63
Less – amount representing interest	5	8
Present value of net minimum lease payments	$ 83	$ 55

ROU assets obtained in exchange for new operating lease liabilities were $0 and $223 in fiscal 2021 and fiscal 2020, respectively.

Note 9 - Debt:

Short-Term Debt

The Company and its subsidiaries had no short-term borrowings outstanding at March 31, 2021 and 2020.

On December 2, 2020, the Company entered into a revolving credit facility agreement with JPMorgan Chase Bank, N.A. that provides a $22,000 line of credit, expandable at the Company's option and upon the bank's approval at any time up to $37,000, including a $7,000 commitment for letters of credit and bank guarantees. The agreement has a one-year term.

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 1.75%. Amounts available for borrowing under the agreement are subject to an unused commitment fee of 0.375%. The bank's prime rate was 3.25% at March 31, 2021 and 2020.

Outstanding letters of credit under the agreement are subject to a fee of 0.75%. The agreement requires the Company to secure outstanding letters of credit with cash and cash equivalents and investments. At March 31, 2021, all outstanding letters of credit were secured by a certificate of deposit. At March 31, 2021, there were $5,416 letters of credit outstanding on the JPMorgan Chase Bank, N.A. revolving credit facility. Availability under the line of credit was $16,584 at March 31, 2021.

Under the revolving credit facility, the Company covenants to maintain a maximum funded debt to earnings before interest expense, income taxes, depreciation and amortization ("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 maximum 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 years ended March 31, 2021 and 2020. Assets with a book value of $117,360 have been pledged to secure borrowings under the credit facility.

At March 31, 2020, the Company had an additional letter of credit facility agreement with HSBC Bank USA, N.A. to further support its international operations. The agreement provided a $10,000 line of credit to be used for the issuance of letters of credit. On May 1, 2020 and October 8, 2020, the Company entered into agreements to amend the letter of credit facility agreement and increase the letter of credit facility to $14,000 and $15,000, respectively. Under the current agreement, the Company incurs an annual facility fee of $5 and outstanding letters of credit are subject to a fee of between 0.75% and 0.85%, depending on the term of the letter of credit. Interest is payable on the principal amounts of unreimbursed letter of credit draws under the facility at a rate of 3% plus the bank's prime rate. The bank's prime rate was 3.25% at March 31, 2021. The Company's obligations under the agreement are secured by cash or certificates of deposit held with the bank. At March 31, 2021 there were $6,151 letters of credit outstanding, and availability under the letter of credit facility was $8,849.

Long-Term Debt

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

	March 31, 2021	March 31, 2020
Finance lease obligations (Note 8)	$ 55	$ 95
Less: current amounts	21	40
Total	$ 34	$ 55

With the exception of capital leases, the Company has no long-term debt payment requirements over the next five years as of March 31, 2021.

Note 10 - 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, 2021 and 2020, 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, 2021 and 2020, the Company was contingently liable on outstanding standby letters of credit aggregating $11,567 and $13,328, respectively.

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, 2021 and 2020 approximated the carrying value and are considered Level 2 assets in the fair value hierarchy.

Note 11 – Income Taxes:

An analysis of the components of income (loss) before provision for income taxes is presented below:

	Year ended March 31, 2021	2020	2019
United States	$ (602)	$ 2,405	$ (256)
Asia	3,869	(93)	111
	$ 3,267	$ 2,312	$ (145)

The provision for income taxes consists of:

	Year ended March 31,		
	2021	2020	2019
Current:			
Federal	$ 924	$ 547	$ 181
State	62	176	141
Foreign	468	4	—
	1,454	727	322
Deferred:			
Federal	(960)	(694)	(3,993)
State	(116)	8	(84)
Foreign	508	(12)	41
Changes in valuation allowance	7	411	3,877
	(561)	(287)	(159)
Total provision for income taxes	$ 893	$ 440	$ 163

The reconciliation of the provision (benefit) 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,		
	2021	2020	2019
Provision (benefit) for income taxes at federal rate	$ 686	$ 486	$ (30)
State taxes	(35)	120	45
Charges not deductible for income tax purposes	158	55	89
Research and development tax credits	(172)	(211)	(177)
Valuation allowance	7	411	3,877
Difference in federal rate	156	(1)	3
Impairment of goodwill and intangible assets	—	—	257
Foreign tax credit	(84)	—	—
Foreign-derived intangible income deduction	(81)	(95)	(69)
Global intangible low-taxed income	405	(1)	11
Net operating loss carryback	(146)	—	—
Capital loss from sale of Energy Steel	—	(325)	(3,848)
Other	(1)	1	5
Provision for income taxes	$ 893	$ 440	$ 163

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, 2021	March 31, 2020
Depreciation	$ (1,772)	$ (1,707)
Accrued compensation	147	206
Prepaid pension asset	(1,386)	(783)
Accrued pension liability	347	169
Accrued postretirement benefits	131	143
Compensated absences	435	402
Inventories	462	(13)
Warranty liability	140	81
Accrued expenses	585	366
Equity-based compensation	337	385
Operating lease assets	(22)	(58)
Operating lease liabilities	23	60
New York State investment tax credit	1,115	1,108
Net operating loss carryforwards	—	75
Capital loss related to sale of Energy Steel	4,211	4,211
Other	(62)	1
	4,691	4,646
Less: Valuation allowance	(5,326)	(5,319)
Total	$ (635)	$ (673)

The foreign deferred income tax asset of $0 and $48 at March 31, 2021 and 2020, respectively, is included in the caption "Other assets" in the Consolidated Balance Sheets. Deferred income taxes include the impact of state investment tax credits of $321, which expire from 2022 to 2035 and state investment tax credits of $794, 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, 2021 and 2020 related to certain state investment tax credits and the capital loss related to Energy Steel would not be realized, and recorded a valuation allowance of $5,326 and $5,319, 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 2017 through 2020 and examination in state tax jurisdictions for tax years 2016 through 2020. The Company is subject to examination in the People's Republic of China for tax years 2017 through 2020 and in India for tax years 2018 through 2020. The liability for unrecognized tax benefits was $0 at each of March 31, 2021 and 2020.

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security ("CARES") Act into law. The CARES Act included several significant business tax provisions that, among other things, would eliminate the taxable income limit for certain net operating losses and allow businesses to carry back net operating losses arising in 2018, 2019 and 2020 to the five prior tax years, accelerate refunds of previously generated corporate alternative minimum tax credits, change the business interest limitation under IRC section 163(j) from 30% to 50%, and fix qualified improvement property from the Tax Cuts and Jobs Act (the "Tax Act"). These provisions did not have a material impact on the Company’s consolidated financial statements.

Note 12 – 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 (benefit) are:

	Year ended March 31,		
	2021	2020	2019
Service cost during the period	$ 461	$ 496	$ 571
Interest cost on projected benefit obligation	1,211	1,290	1,339
Expected return on assets	(2,513)	(2,657)	(3,062)
Amortization of:			
Actuarial loss	1,039	969	847
Net pension cost (benefit)	$ 198	$ 98	$ (305)

The components of net pension cost (benefit) other than the service cost component are included in “Other income” in the Consolidated Statements of Operations.

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

	Year ended March 31,		
	2021	2020	2019
Discount rate	3.44%	3.83%	3.95%
Rate of increase in compensation levels	3.00%	3.00%	3.00%
Long-term rate of return on plan assets	6.50%	7.00%	8.00%

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 2022.

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

	Year ended March 31, 2021	2020
Change in the benefit obligation		
Projected benefit obligation at beginning of year	$ 35,783	$ 34,149
Service cost	461	496
Interest cost	1,211	1,290
Actuarial loss	1,284	2,368
Benefit payments	(942)	(1,100)
Liability released through annuity purchase	(1,477)	(1,420)
Projected benefit obligation at end of year	$ 36,320	$ 35,783
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 39,243	$ 38,416
Actual return on plan assets	5,712	3,347
Benefit and administrative expense payments	(942)	(1,100)
Annuities purchased	(1,477)	(1,420)
Fair value of plan assets at end of year	$ 42,536	$ 39,243
Funded status		
Funded status at end of year	$ 6,216	$ 3,460
Amount recognized in the Consolidated Balance Sheets	$ 6,216	$ 3,460

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

	March 31, 2021	2020
Discount rate	3.21%	3.44%
Rate of increase in compensation levels	3.00%	3.00%

During fiscal 2021 and fiscal 2020, the pension plan released liabilities for vested benefits of certain participants through the purchase of nonparticipating annuity contracts with a third-party insurance company. As a result of these transactions, in fiscal 2021 and fiscal 2020, the projected benefit obligation and plan assets decreased $1,477 and $1,420, respectively. 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. 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, 2021 and 2020 was $32,861 and $31,715, respectively. At March 31, 2021 and 2020, the pension plan was fully funded on an accumulated benefit obligation basis.

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

	March 31, 2021	2020
Net actuarial loss	$ 6,990	$ 9,285

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

	March 31, 2021	2020
Net actuarial (gain) loss arising during the year	$ (1,488)	$ 1,298
Amortization of actuarial loss	(807)	(750)
	$ (2,295)	$ 548

The following benefit payments, which reflect future service, are expected to be paid during the fiscal years ending March 31:

2022	$ 1,174
2023	1,191
2024	1,262
2025	1,269
2026	1,379
2027-2031	8,524
Total	$ 14,799

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

Asset Category	Target Allocation	March 31, 2021	March 31, 2020
Equity securities	30%	33%	30%
Debt securities	70%	67%	70%
		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, 2021 and 2020, by asset category, are as follows:

		Fair Value Measurements Using		
Asset Category	At March 31, 2021	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash	$ 79	$ 79	$ —	$ —
Equity securities:				
U.S. companies	11,202	11,202	—	—
International companies	2,700	2,700	—	—
Fixed income:				
Corporate bond funds				
Long-term	28,555	28,555	—	—
	$ 42,536	$ 42,536	$ —	$ —

		Fair Value Measurements Using		
Asset Category	At March 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash	$ 82	$ 82	$ —	$ —
Equity securities:				
U.S. companies	9,409	9,409	—	—
International companies	2,327	2,327	—	—
Fixed income:				
Corporate bond funds				
Long-term	27,425	27,425	—	—
	$ 39,243	$ 39,243	$ —	$ —

The fair value of Level 1 pension assets is 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 2021, fiscal 2020 and fiscal 2019 was $430, $406 and $325, respectively.

The Company has an unfunded 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 2021, fiscal 2020, and fiscal 2019 related to this plan was $105, $85 and $97, respectively. The weighted average discount rate used to determine pension expense for this plan was 3.44%, 3.83% and 3.95% for fiscal 2021, fiscal 2020 and fiscal 2019, respectively. The weighted average rate of increase in compensation levels used to develop pension expense for this plan was 3% in each of fiscal 2021, fiscal 2020 and fiscal 2019. At March 31, 2021 and 2020, the projected benefit obligation was $1,557 and $747, respectively, and is separately presented in the caption "Accrued Pension Liability" in the Consolidated Balance Sheets. The amounts recognized in accumulated other comprehensive loss, net of income tax, consist of a net actuarial loss of $544 and $0 at March 31, 2021 and 2020, respectively.

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 $863 in fiscal 2021, $1,000 in fiscal 2020 and $1,135 in fiscal 2019.

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 expense are:

	Year ended March 31,		
	2021	2020	2019
Interest cost on accumulated benefit obligation	$ 18	$ 22	$ 25
Amortization of actuarial loss	27	28	28
Net postretirement benefit expense	$ 45	$ 50	$ 53

Net postretirement benefit expense is included in “Other income” in the Consolidated Statements of Operations.

The weighted average discount rates used to develop the net postretirement benefit cost were 3.01%, 3.37% and 3.63% in fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

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

	Year ended March 31,	
	2021	2020
Change in the benefit obligation		
Projected benefit obligation at beginning of year	$ 634	$ 682
Interest cost	18	22
Actuarial loss (gain)	(3)	(3)
Benefit payments	(62)	(67)
Projected benefit obligation at end of year	$ 587	$ 634

	2021	2020
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contribution	62	67
Benefit payments	(62)	(67)
Fair value of plan assets at end of year	$ —	$ —
Funded status		
Funded status at end of year	$ (587)	$ (634)
Amount recognized in the Consolidated Balance Sheets	$ (587)	$ (634)

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

	March 31, 2021	March 31, 2020
Discount rate	2.34%	3.01%
Medical care cost trend rate	7.00%	7.00%

The medical care cost trend rate used in the actuarial computation ultimately reduces to 4.5% in 2026 and subsequent years. This was accomplished using 0.5% decrements for the years ended March 31, 2022 through 2026.

The current portion of the accrued postretirement benefit obligation of $72 and $77, at March 31, 2021 and 2020, 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, 2021	March 31, 2020
Net actuarial loss	$ 164	$ 187

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

	March 31, 2021	March 31, 2020
Net actuarial gain arising during the year	$ (2)	$ (2)
Amortization of actuarial loss	(21)	(21)
	$ (23)	$ (23)

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

2022	$ 72
2023	67
2024	62
2025	57
2023	52
2027-2031	192
Total	$ 502

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 of $1,000. The Company also has total plan annual maximum aggregate stop loss coverage of $2,744.

The liability of $184 and $124 on March 31, 2021 and 2020, 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 13 - Equity Compensation Plans:

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

In fiscal 2021, fiscal 2020 and fiscal 2019, 113, 83 and 53 shares, respectively, of restricted stock were awarded. Restricted shares of 54, 40 and 27 granted to officers in fiscal 2021, fiscal 2020 and fiscal 2019, respectively, vest 100% on the third anniversary of the grant date subject to the satisfaction of the performance metrics for the applicable three-year period. Restricted shares of 38, 28, and 20 granted to officers and key employees in fiscal 2021, fiscal 2020, and fiscal 2019 respectively, vest 33⅓% per year over a three-year term. The restricted shares granted to directors of 21, 15 and 6 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively, vest 100% on the first anniversary of the grant date. The Company recognizes compensation cost over the period the shares vest. Stock options may be granted at prices not less than the fair market value at the date of grant and expire no later than ten years after the date of grant. No stock option awards were granted in fiscal 2021, fiscal 2020 and fiscal 2019.

During fiscal 2021, fiscal 2020, and fiscal 2019, the Company recognized $817, $945, and $1,069, respectively, of stock-based compensation cost related to stock option and restricted stock awards, and $193, $208 and $237, respectively, of related tax benefits.

The Company received cash proceeds from the exercise of stock options of $0, $24 and $307 in fiscal 2021, fiscal 2020 and fiscal 2019, respectively.

The following table summarizes information about the Company's stock option awards during fiscal 2021, fiscal 2020 and fiscal 2019:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at April 1, 2018	69	20.26		
Exercised	(19)	15.89		
Cancelled	(11)	33.02		
Outstanding at March 31, 2019	39	18.76		
Exercised	(2)	15.25		
Outstanding at March 31, 2020	37	18.92		
Exercised	—			
Outstanding at March 31, 2021	37	18.92	1.07 years	$ —
Vested or expected to vest at March 31, 2021	37	18.92	1.07 years	—
Exercisable at March 31, 2021	37	18.92	1.07 years	—

The following table summarizes information about stock options outstanding at March 31, 2021:

Exercise Price	Options Outstanding at March 31, 2021	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
$18.65	33	$ 18.65	1.17
$21.19	4	21.19	0.17
$18.65-21.19	37	18.92	1.07

The total intrinsic value of the stock options exercised during fiscal 2021, fiscal 2020 and fiscal 2019 was $0, $10 and $161, respectively. As of March 31, 2021, there was $1,877 of total unrecognized stock-based compensation expense related to non-vested restricted stock. The Company expects to recognize this expense over a weighted average period of 1.67 years.

The outstanding options expire between May 2021 and May 2022. Options, stock awards and performance awards available for future grants were 453 at March 31, 2021.

The following table summarizes information about the Company's restricted stock awards during fiscal 2021, fiscal 2020 and fiscal 2019:

	Restricted Stock	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested at April 1, 2018	126	22.02	
Granted	53	30.08	
Vested	(28)	20.38	
Forfeited	(2)	22.83	
Non-vested at March 31, 2019	149	25.19	
Granted	83	22.95	
Vested	(38)	23.17	
Forfeited	(45)	22.52	
Non-vested at March 31, 2020	149	25.26	
Granted	113	16.39	
Vested	(43)	22.70	
Forfeited	(54)	23.09	
Non-vested at March 31, 2021	165	20.56	$ 8

The Company has an Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock at a discount of up to 15% of its fair market value on the (1) last, (2) first or (3) lower of the last or first day of the six-month offering period. A total of 200 shares of common stock may be purchased under the ESPP. In fiscal 2021, fiscal 2020 and fiscal 2019, 21, 9 and 6 shares, respectively, were issued from treasury stock to the ESPP for the offering periods in each of the fiscal years. During fiscal 2021, fiscal 2020 and fiscal 2019, the Company recognized stock-based compensation cost of $47, $30 and $0, respectively, related to the ESPP and $11, $7 and $0, respectively, of related tax benefits.

Note 14 – Changes in Accumulated Other Comprehensive Loss:

The changes in accumulated other comprehensive loss by component for fiscal 2021 and fiscal 2020 are:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2019	$ (8,947)	$ 114	$ (8,833)
Other comprehensive loss before reclassifications	(1,296)	(198)	(1,494)
Amounts reclassified from accumulated other comprehensive loss	771	—	771
Net current-period other comprehensive loss	(525)	(198)	(723)
Balance at March 31, 2020	(9,472)	(84)	(9,556)
Other comprehensive income before reclassifications	946	385	1,331
Amounts reclassified from accumulated other comprehensive loss	828	—	828
Net current-period other comprehensive income	1,774	385	2,159
Balance at March 31, 2021	$ (7,698)	$ 301	$ (7,397)

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

Year ended March 31, 2021

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	$ —	
Amortization of actuarial loss	(1,066) (1)	
	(1,066)	Income before provision for income taxes
	(238)	Provision for income taxes
	$ (828)	Net income

Year ended March 31, 2020

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	$ —	
Amortization of actuarial loss	(997) (1)	
	(997)	Income before provision for income taxes
	(226)	Provision for income taxes
	$ (771)	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 12.

Note 15 - 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 energy, defense, chemical and petrochemical markets. 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.

See Note 2 to the consolidated financial statements for net sales by product line and geographic area.

In fiscal 2021, the Company had two customers whose sales amounted to 12% and 11% of total consolidated net sales. In fiscal 2020 and fiscal 2019, total sales to one customer amounted to 13% and 12%, respectively, of total consolidated net sales. The customers representing such sales were different customers in each of fiscal 2021, fiscal 2020 and fiscal 2019.

Note 16 – Purchase of Treasury Stock:

On January 29, 2015, the Company’s Board of Directors authorized a stock repurchase program. Under the stock repurchase program the Company is permitted to repurchase up to $18,000 of its common stock either in the open market or through privately negotiated transactions. Cash on hand has been used to fund all stock repurchases under the program. No shares were purchased under this program in fiscal 2021, fiscal 2020 or fiscal 2019.

Note 17– Commitments and Contingencies:

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

As of March 31, 2021, the Company was subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business.

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

Note 18 - Quarterly Financial Data (Unaudited):

A capsule summary of the Company's unaudited quarterly results for fiscal 2021 and fiscal 2020 is presented below:

Year ended March 31, 2021	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 16,710	$ 27,954	$ 27,154	$ 25,671	$ 97,489
Gross profit	1,568	7,693	6,227	4,981	20,469
Net income (loss)	(1,818)	2,744	1,060	388	2,374
Per share:					
Net income (loss):					
Basic	$ (0.18)	$ .27	$ .11	$ .04	$ 0.24
Diluted	$ (0.18)	$ .27	$ .11	$ .04	$ 0.24
Market price range of common stock	$10.36-15.86	$11.88-14.94	$12.56-16.97	$13.92-17.44	$10.36-17.44

Year ended March 31, 2020	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 20,593	$ 21,643	$ 25,286	$ 23,082	$ 90,604
Gross profit	4,714	4,948	4,044	4,442	18,148
Net income	82	1,205	9	576	1,872
Per share:					
Net income:					
Basic	$ .01	$ .12	$ —	$ .06	$ 0.19
Diluted	$ .01	$ .12	$ —	$ .06	$ 0.19
Market price range of common stock	$18.96-22.84	$17.70-23.25	$19.03-23.77	$11.07-21.90	$11.07-23.77

Note 19 – Subsequent Events:

On June 1, 2021, the Company acquired Barber-Nichols, Inc. ("BNI"), a privately-owned designer and manufacturer of turbomachinery products for the aerospace, cryogenic, defense and energy markets, located in Arvada, Colorado. The Company believes that this acquisition furthers its growth strategy through market and product diversification, broadens its offerings to the defense and energy markets and strengthens its presence in the defense sector.

Under the terms of the stock purchase agreement, the purchase price of $70,113 is comprised of 610 shares of the Company common stock, representing a value of approximately $8,963, and cash consideration of $61,150, subject to certain potential adjustments, including a customary working capital adjustment. The stock purchase agreement also includes a contingent earn-out dependent upon certain financial measures of BNI post-acquisition, in which the sellers are eligible to receive up to $14,000 in additional cash consideration.

On June 1, 2021, the Company entered into a $20,000 five-year term loan with Bank of America. The term loan requires monthly principal payments of $167 through June 1, 2026, with the remaining principal amount due on the maturity date. The interest rate on the term loan is the applicable Bloomberg Short-Term Bank Yield Index ("BSBY"), plus 1.50%, subject to a 0.00% floor. In addition, on June 1, 2021, the Company entered into a revolving credit facility with Bank of America that provides a $30,000 line of credit, including letters of credit and bank guarantees, expandable at the Company’s option and the bank’s approval at any time up to $40,000. The agreement has a five-year term. Amounts outstanding under the facility agreement will bear interest at a rate equal to BSBY plus 1.50%, subject to a 0.00% floor. Outstanding letters of credit under the agreement are subject to a fee of 1.50%. The upfront fee for both the term loan and revolving credit facility is .20% of the committed facilities and amounts available for borrowing under the revolving credit facility are subject to an unused commitment fee of .25%. Under the term loan agreement and revolving credit facility, the Company covenants to maintain a maximum total leverage ratio, as defined in such agreements, of 3.0 to 1.0, a minimum fixed charge coverage ratio, as defined in such agreements, of 1.20 to 1.0 and minimum margined assets, as defined in such agreements, of 100% of total amounts outstanding on the revolving credit facility, including letters of credit.

On June, 1, 2021, the Company entered into an agreement to amend the letter of credit facility agreement with HSBC Bank USA, N.A. and decreased the Company's line of credit from $15,000 to $7,500. Under the amended agreement, the Company incurs an annual facility fee $5 and outstanding letters of credit are subject to a fee of between .75% and .85%, depending on the term of the letter of credit. Interest is payable on the principal amounts of unreimbursed letter of credit draws under the facility at a rate of 3% plus the bank's prime rate.

In addition, on June 1, 2021, the Company entered into an employment agreement with a key employee of BNI, which is consistent with agreements with other named executive officers.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Graham Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries (the "Company") as of March 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows, for each of the three years in the period ended March 31, 2021, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition — Over time – Input Method – Refer to Notes 1 and 2 to the financial statements

Critical Audit Matter Description

The Company recognizes a majority of its revenue over time when contract performance results in the creation of a product for which the Company does not have an alternative use and the contract includes an enforceable right to payment in an amount that corresponds directly with the value of the performance completed. To measure progress towards completion on performance obligations for which revenue is recognized over time the Company primarily utilizes an input method based upon a ratio of direct labor hours incurred to date to management’s estimate of the total direct labor hours to be incurred at completion on each contract. Revenue from contracts that is recognized over time accounted for approximately 60% of revenue in fiscal 2021.

We identified revenue associated with in-process contracts recognized over time utilizing an input method as a critical audit matter because of the judgments necessary for management to estimate total direct labor hours at completion. An extensive audit effort and a high degree of auditor judgment was required when performing audit procedures to audit management's estimates of total direct labor hours at completion used to recognize revenue over time and evaluating the results of those procedures.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's estimate of total direct labor hours at completion included the following, among others:

- We tested the mathematical accuracy of management's calculation of revenue recognized over time.
- For a selection of in-process contracts with customers that were recognized over time utilizing an input method, we performed the following, among others:
  - Evaluated whether the contracts were properly included in management's calculation of revenue recognized over time based on the terms and conditions of each contract.
  - Evaluated the reasonableness and consistency of the methodology used by management to estimate total direct labor hours at completion for each contract and tested the mathematical accuracy of such estimate.
  - Evaluated the direct labor hours estimate by obtaining original estimates and any change orders, testing direct labor hours completed to date, observing the work sites and inspecting the progress to completion as of fiscal year end, and performing corroborating inquiries with the Company's project managers and engineers regarding the estimates of total direct labor hours at completion.
- We evaluated management's ability to estimate total direct labor hours at completion accurately by comparing actual direct labor hours incurred to management's historical estimates for a selection of similar contracts that were completed in fiscal year 2021.

Deloitte & Touche LLP

Deloitte & Touche LLP
Rochester, New York
June 2, 2021

We have served as the Company's auditor since 1993.

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. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our administrative, non-production line employees were working remotely during the first quarter of fiscal 2021 due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 pandemic situation on our internal controls to minimize the impact on their design and operating effectiveness.

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 our 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, 2021.

Item 9B. Other Information

Not applicable.

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," and "Corporate Governance" contained in our proxy statement for our 2021 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2021.

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 "Director Compensation" contained in our proxy statement for our 2021 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2021.

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 2021 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2021.

Securities Authorized for Issuance under Equity Compensation Plans as of March 31, 2021

	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	37	$ 18.92	453
Equity compensation plans not approved by security holders	—	—	—
Total	37	$ 18.92	453

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 2021 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2021.

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 Appointment of our Independent Registered Public Accounting Firm" contained in our proxy statement for our 2021 Annual Meeting of Stockholders, to be filed within 120 days after the year ended March 31, 2021.

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.

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 is incorporated herein by reference from Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended March 31, 2015.

(4) Instrument Defining the Rights of Security Holders, including Indentures

4.1 Description of Securities is incorporated herein by reference from Exhibit 4.1 to the Company’s Annual Report on Form 10-K for the year ended March 31, 2019.

(10) Material Contracts

#10.1 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.

#10.2 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.

#10.3 2020 Graham Corporation Equity Incentive Plan is incorporated herein by reference from Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2020.

#10.4 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.

#10.5 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.

#10.6 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.

#10.7 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.

#10.8 Graham Corporation Annual Stock-Based Long-Term Incentive Award Plan for Senior Executives in effect for the fiscal year ending March 31, 2021 is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated June 9, 2020.

#10.9 Graham Corporation Annual Executive Cash Bonus Program in effect for the fiscal year ending March 31, 2021 is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated August 11, 2020.

#10.10 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.

#10.11 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.

#10.12 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.

#10.13 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.

#10.14 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.

#10.15 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.
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10.16 Amended and Restated Policy on Stockholder Rights Plans is incorporated herein by reference from Exhibit 99.1 to the Company's Current Report on Form 8-K dated April 30, 2020.

#10.17 Compensation information, including information regarding restricted stock grants made to the Company's named executive officers under the Amended and Restated 2000 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 June 9, 2020, is incorporated herein by reference.

#10.18 First Amendment to Amended and Restated Employment Agreement between the Graham Corporation and Jeffrey F. Glajch executed and effective September 12, 2019 is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 12, 2019.

#10.19 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.

#10.20 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.

10.21 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.

10.22 Letter Agreement dated May 1, 2020, with respect to the Continuing Letter of Credit Facility dated March 24, 2014, between the Company and HSBC Bank, USA, National Association is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 30, 2020.

#10.23 Amendment to the Graham Corporation Supplemental Executive Retirement Plan is incorporated herein by reference from Exhibit 99.3 to the Company's Current Report on Form 8-K dated May 24, 2016.

10.24 Pledge Agreement between the Company and HSBC Bank, USA, National Association dated May 1, 2020 is incorporated herein by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated April 30, 2020.

10.25 First Amendment to the Letter Agreement dated May 1, 2020 with respect to the continuing Letter of Credit Facility dated March 24, 2014, between the Company and HSBC Bank USA, National Association, effective as of August 23, 2020 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, 2020.

10.26 Pledge Agreement between the Company and HSBC Bank USA, National Association, dated August 13, 2020 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, 2020.

10.27 Letter Agreement dated October 28, 2020 between the Company and HSBC Bank USA, National Association is incorporated herein by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 28, 2020.

10.28 Credit Agreement between the Company and JPMorgan Chase Bank, National Association, dated December 2, 2020 is incorporated herein by reference from Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2020.

10.29 Second Amendment to the Amended and Restated Employment Agreement of Jeffrey F. Glajch, as amended, dated March 16, 2021 is incorporated herein by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K dated March 16, 2021.

(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 Data File

*101.INS Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

*101.SCH Inline XBRL Taxonomy Extension Schema Document

*101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

*101.DEF Inline XBRL Taxonomy Definitions Linkbase Document

*101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document

*101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document

(104) Cover Page Interactive Data File embedded within the Inline XBRL document

* Exhibits filed with this report.
\# Management contract or compensatory plan.

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, 2021					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 33	$ (4)	$ —	$ —	$ 29
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$ 359	$ 344	$ —	$ (77)	$ 626
Year ended March 31, 2020					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 33	$ —	$ —	$ —	$ 33
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$ 366	$ 62	$ —	$ (69)	$ 359
Year ended March 31, 2019					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 339	$ (167)	$ (13)	$ (126)	$ 33
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$ 493	$ 234	$ (85)	$ (276)	$ 366
Reserves included in the balance sheet caption "accrued compensation"					
Restructuring reserve	$ 18	$ —	$ —	$ (18)	$ —

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, 2021

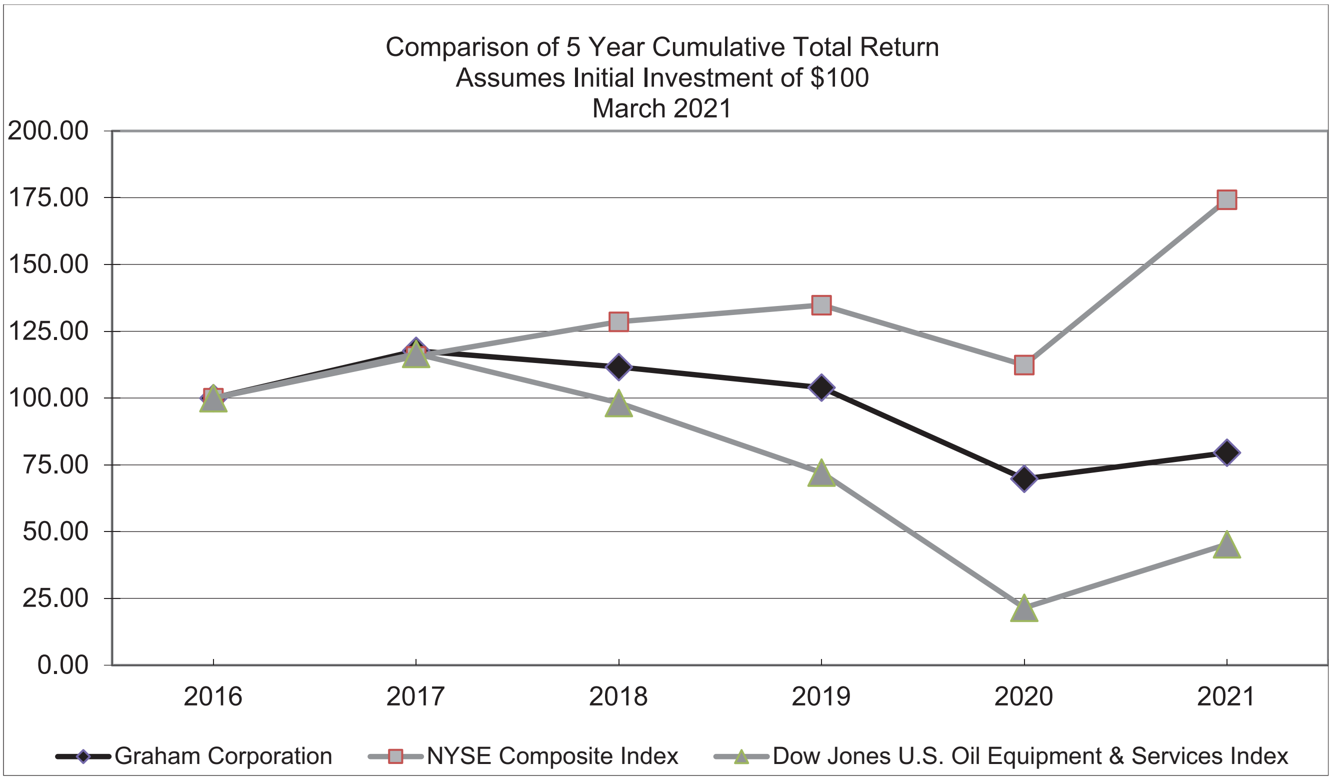
By: /s/ JEFFREY F. GLAJCH
Jeffrey F. Glajch
Vice President-Finance & Administration,
Chief Financial Officer and Corporate Secretary

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, 2021
/s/ JEFFREY F. GLAJCH Jeffrey F. Glajch	Vice President-Finance & Administration, Chief Financial Officer and Corporate Secretary (Principal Financial Officer)	June 2, 2021
/s/ JENNIFER R. CONDAME Jennifer R. Condame	Chief Accounting Officer (Principal Accounting Officer)	June 2, 2021
/s/ JAMES J. BARBER James J. Barber	Director	June 2, 2021
/s/ ALAN FORTIER Alan Fortier	Director	June 2, 2021
/s/ JAMES J. MALVASO James J. Malvaso	Director and Chairman of the Board	June 2, 2021
/s/ GERARD T. MAZURKIEWICZ Gerard T. Mazurkiewicz	Director	June 2, 2021
/s/ JONATHAN W. PAINTER Jonathan W. Painter	Director	June 2, 2021
/s/ LISA M. SCHNORR Lisa M. Schnorr	Director	June 2, 2021

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

The line graph below assumes an investment of $100 on March 31, 2016 in: (i) our common stock; (ii) the stocks comprising the NYSE Composite Index; and (iii) the stocks comprising the Dow Jones U.S. Oil Equipment & Services 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.



Safe Harbor Regarding Forward Looking Statements
This annual report contains 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.

Forward-looking statements are subject to risks, uncertainties and assumptions and are identified by words such as "expects," "estimates," "confidence," "projects," "typically," "outlook," "anticipates," "believes," "appears," "could," "will," "opportunities," "seeking," "plans," "aim," "pursuit," "look towards" and other similar words. All statements addressing operating performance, events, or developments that Graham Corporation expects or anticipates will occur in the future, including but not limited to, its ability to successfully integrate and operate Barber-Nichols Inc., effects of the COVID-19 pandemic on its business operations, its customers, and its markets, expected expansion and growth opportunities within its 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 and productivity, customer preferences, changes in market conditions in the industries in which it operates, the effect on its business of volatility in commodities prices, particularly in the oil and energy markets, 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 its operations in China, India and other international locations, are forward-looking statements. Because they are forward-looking, they should be evaluated in light of important risk factors and uncertainties. These risk factors and uncertainties are more fully described in Graham Corporation's most recent Annual Report filed with the Securities and Exchange Commission, included under the heading entitled "Risk Factors."

Should one or more of these risks or uncertainties materialize or should any of Graham Corporation's underlying assumptions prove incorrect, actual results may vary materially from those currently anticipated. In addition, undue reliance should not be placed on Graham Corporation's forward-looking statements. Except as required by law, Graham Corporation disclaims any obligation to update or publicly announce any revisions to any of the forward-looking statements contained in this annual report.

STOCKHOLDER INFORMATION

Stock Exchange Listing

NYSE: GHM

2021 Annual Meeting of Stockholders

July 28, 2021 at 11:00 am ET
to be held virtually via www.proxydocs.com/GHM

In order to attend the 2021 Annual Meeting, you must register in advance at www.proxydocs.com/GHM

Transfer Agent and Registrar

Computershare
P.O. Box 505000
Louisville, KY 40233

Overnight Delivery
Computershare
462 South 4th Street, Suite 1600
Louisville, KY 40202

U.S. Stockholders: (800) 288-9541
International Stockholders: (201) 680-6578
TDD U.S. Hearing Impaired: (800) 231-5469
TDD International Stockholders: (201) 680-6610
www.computershare.com/investor

Investor Relations

Investors, stockbrokers, 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

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

Senior Executive Team

James R. Lines
Chief Executive Officer

Daniel J. Thoren
President and Chief Operating Officer

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

Matthew J. Malone
Vice President and General Manager of Barber-Nichols

Alan E. Smith
Vice President and General Manager- Batavia

Jennifer R. Condame
Corporate Controller and Chief Accounting Officer

Board of Directors

James J. Malvaso [1, 2, 3]
Chairman of the Board
Director Since 2003
President and Chief Executive Officer (Retired),
Toyota Material Handling Group

James J. Barber, Ph.D. [1, 3]
Director Since 2011
Principal, Barber Advisors, LLC

Alan Fortier [2, 3*]
Director Since 2008
President, Fortier & Associates, Inc.

James R. Lines
Director Since 2006
Chief Executive Officer, Graham Corporation

Gerard T. Mazurkiewicz [1*, 3]
Director Since 2007
Partner, Dopkins & Company LLP

Jonathan W. Painter [1, 2]
Director Since 2014
Executive Chairman and Director,
Kadant Inc.

Lisa M. Schnorr [1, 2*]
Director Since 2014
Senior Vice President, Constellation Brands, Inc.

[1] Audit Committee
[2] Compensation Committee
[3] Nominating and Corporate Governance Committee
** Committee Chair*

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NYSE: GHM

Graham Corporation

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