GRAHAM CORP
Form 10-K/A
February 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(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, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to ___________.

Commission File Number 1-8462

GRAHAM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	16-1194720
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 Florence Avenue, Batavia, New York	14020
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered

Common Stock (Par Value $.10) NYSE

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

Title of Class

Preferred Stock Purchase Rights

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of September 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was $168,783,420. The market value calculation was determined using the closing price of the registrant's common stock on September 30, 2015, as reported on the NYSE (the exchange on which the registrant's common stock is listed). For purposes of the foregoing calculation only, all directors, officers and the Employee Stock Ownership Plan of the registrant have been deemed affiliates.

As of May 23, 2016, the registrant had outstanding 9,646,981shares of common stock, $.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement, to be filed in connection with the registrant's 2016 Annual Meeting of Stockholders to be held on July 28, 2016, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this filing.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends the Annual Report on Form 10-K for the year ended March 31, 2016 of Graham Corporation (the "Company"), as originally filed with the U.S. Securities and Exchange Commission on June 1, 2016 (the "Original Filing"). The Company is filing the Amendment solely to amend: (i) Part II-Item 8 "Financial Statements and Supplementary Data" and (ii) Part IV-Item 15 "Exhibits and Financial Statement Schedules", in each case to correct typographical errors relating to references to the dates of the audit reports (the "Reports") of Deloitte & Touche LLP, the Company's Independent Registered Public Accounting Firm. The correct reference to the date of the Reports is June 1, 2016.

This Amendment is limited in scope to the portions of the Original Filing discussed above and does not amend, update or change any other items or disclosures contained in the Original Filing. This Amendment continues to speak as of the date of the Original Filing and we have not updated the disclosures contained therein to reflect any events that occurred at any subsequent date.

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GRAHAM CORPORATION

Annual Report on Form 10-K

Year Ended March 31, 2016

PART II

Item 8.Financial Statements and Supplementary Data

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CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended March 31, 2016	2015	2014
	(Amounts in thousands, except per share data)		
Net sales	$90,039	$135,169	$102,218
Cost of products sold	66,784	93,365	70,406
Gross profit	23,255	41,804	31,812
Other expenses and income:			
Selling, general and administrative	16,331	18,283	16,973
Selling, general and administrative - amortization	234	229	222
Restructuring charge	—	1,718	—
Other income	(1,789)	—	—
Interest income	(261)	(189)	(94)
Interest expense	10	11	1
Total other expenses and income	14,525	20,052	17,102
Income before provision for income taxes	8,730	21,752	14,710
Provision for income taxes	2,599	7,017	4,565
Net income	$6,131	$14,735	$10,145
Per share data			
Basic:			
Net income	$0.61	$1.46	$1.01
Diluted:			
Net income	$0.61	$1.45	$1.00
Average common shares outstanding:			
Basic	9,976	10,123	10,070
Diluted	9,983	10,143	10,104
Dividends declared per share	$.33	$.20	$.13

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended March 31,		
	2016	2015	2014
	(Amounts in thousands)		
Net income	$6,131	$14,735	$10,145
Other comprehensive income:			
Foreign currency translation adjustment	(150)	3	(7)
Defined benefit pension and other postretirement plans, net of income tax (benefit) provision, of $(804), $(1,802), and $1,244 for the years ended March 31, 2016, 2015 and 2014, respectively	(1,470)	(3,294)	2,275
Total other comprehensive income	(1,620)	(3,291)	2,268
Total comprehensive income	$4,511	$11,444	$12,413

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	March 31, 2016	2015
	(Amounts in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$24,072	$27,271
Investments	41,000	33,000
Trade accounts receivable, net of allowances ($91 and $62 at March 31, 2016 and 2015, respectively)	12,730	17,249
Unbilled revenue	11,852	18,665
Inventories	10,811	13,994
Prepaid expenses and other current assets	613	529
Income taxes receivable	1,652	339
Total current assets	102,730	111,047
Property, plant and equipment, net	18,747	19,812
Prepaid pension asset	—	1,332
Goodwill	6,938	6,938
Permits	10,300	10,300
Other intangible assets, net	4,248	4,428
Other assets	168	146
Total assets	$143,131	$154,003
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of capital lease obligations	$55	$60
Accounts payable	10,325	13,334
Accrued compensation	5,317	9,343
Accrued expenses and other current liabilities	3,826	3,247
Customer deposits	8,400	4,179
Total current liabilities	27,923	30,163
Capital lease obligations	157	98
Accrued compensation	—	124
Deferred income tax liability	3,546	5,876
Accrued pension liability	1,338	315
Accrued postretirement benefits	787	876
Total liabilities	33,751	37,452
Commitments and contingencies (Notes 6 and 17)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500 shares authorized		
Common stock, $.10 par value, 25,500 shares authorized 10,468 and 10,433 shares issued and 9,646 and 10,133 shares outstanding at March 31, 2016 and 2015, respectively	1,047	1,043
Capital in excess of par value	22,315	21,398

Retained earnings	109,013	106,178
Accumulated other comprehensive loss	(10,676)	(9,056)
Treasury stock (822 and 299 shares)	(12,319)	(3,012)
Total stockholders' equity	109,380	116,551
Total liabilities and stockholders' equity	$143,131	$154,003

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	2016	2015	2014
	(Dollar amounts in thousands)		
Operating activities:			
Net income	$6,131	$14,735	$10,145
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,201	2,079	1,977
Amortization	234	229	222
Amortization of unrecognized prior service cost and actuarial losses	1,214	514	886
Discount accretion on investments	—	—	(8)
Stock-based compensation expense	697	653	639
Loss on disposal or sale of property, plant and equipment	4	14	223
Deferred income taxes	(1,522)	157	(1,011)
(Increase) decrease in operating assets:			
Accounts receivable	4,440	(6,910)	(1,001)
Unbilled revenue	6,783	(10,835)	5,318
Inventories	3,175	2,525	(5,161)
Income taxes receivable/payable	(1,309)	158	2,137
Prepaid expenses and other current and non-current assets	(162)	(152)	185
Prepaid pension asset	(1,222)	(1,108)	(793)
Increase (decrease) in operating liabilities:			
Accounts payable	(2,836)	3,115	595
Accrued compensation, accrued expenses and other current and non-current liabilities	(3,178)	4,981	28
Customer deposits	4,227	(3,834)	1,009
Long-term portion of accrued compensation, accrued pension liability and accrued postretirement benefits	(126)	(42)	(160)
Net cash provided by operating activities	18,751	6,279	15,230
Investing activities:			
Purchase of property, plant and equipment	(1,153)	(5,300)	(5,263)
Proceeds from disposal of property, plant and equipment	3	1	32
Purchase of investments	(44,000)	(50,000)	(109,494)
Redemption of investments at maturity	36,000	46,000	108,000
Net cash used by investing activities	(9,150)	(9,299)	(6,725)
Financing activities:			
Principal repayments on capital lease obligations	(59)	(80)	(88)
Issuance of common stock	97	47	581
Dividends paid	(3,296)	(2,026)	(1,308)
Purchase of treasury stock	(9,441)	—	—
Excess tax deduction on stock awards	6	200	271
Net cash used by financing activities	(12,693)	(1,859)	(544)
Effect of exchange rate changes on cash	(107)	4	(9)
Net (decrease) increase in cash and cash equivalents	(3,199)	(4,875)	7,952

Cash and cash equivalents at beginning of year	27,271	32,146	24,194
Cash and cash equivalents at end of year	$24,072	$27,271	$32,146

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended March 31, 2016, 2015 and 2014

(Dollar and share amounts in thousands)

	Common Stock		Capital in Excess of Par	Retained	Accumulated Other Comprehensive	Treasury	Stockholders'
	Shares	Par Value	Value	Earnings	Loss	Stock	Equity
Balance at April 1, 2013	10,331	$1,033	$18,596	$84,632	$ (8,033)	$(3,233)	$ 92,995
Comprehensive income				10,145	2,268		12,413
Issuance of shares	78	8	573				581
Stock award tax benefit			271				271
Dividends				(1,308)			(1,308)
Recognition of equity-based compensation expense			639				639
Issuance of treasury stock			195			122	317
Balance at March 31, 2014	10,409	1,041	20,274	93,469	(5,765)	(3,111)	105,908
Comprehensive income				14,735	(3,291)		11,444
Issuance of shares	24	2	45				47
Stock award tax benefit			200				200
Dividends				(2,026)			(2,026)
Recognition of equity-based compensation expense			653				653
Issuance of treasury stock			226			99	325
Balance at March 31, 2015	10,433	1,043	21,398	106,178	(9,056)	(3,012)	116,551
Comprehensive income				6,131	(1,620)		4,511
Issuance of shares	35	4	93				97
Stock award tax benefit			6				6
Dividends				(3,296)			(3,296)
Recognition of equity-based compensation expense			697				697
Purchase of treasury stock						(9,441)	(9,441)
Issuance of treasury stock			121			134	255
Balance at March 31, 2016	10,468	$1,047	$22,315	$109,013	$ (10,676)	$(12,319)	$ 109,380

See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2016, 2015 and 2014

(Amounts in thousands, except per share data)

Note 1 - The Company and Its Accounting Policies:

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

The Company's fiscal years ended March 31, 2016, 2015 and 2014 are referred to as fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

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

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

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

Translation of foreign currencies

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

Revenue recognition

Percentage-of-Completion Method

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

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

Receivables billed but not paid under retainage provisions in its customer contracts were $2,071 and $1,751 at March 31, 2016 and 2015, respectively.

Completed Contract Method

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

Cash and cash equivalents

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

Shipping and handling fees and costs

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

Investments

Investments consist of certificates of deposits with financial institutions. 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, 2016 are scheduled to mature on or before February 3, 2017.

Inventories

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

A summary of costs and estimated earnings on contracts in progress at March 31, 2016 and 2015 is as follows:

	March 31,	
	2016	2015
Costs incurred since inception on contracts in progress	$35,893	$64,912
Estimated earnings since inception on contracts in progress	1,185	16,067
	37,078	80,979
Less billings to date	38,267	69,636
Net under (over) billings	$(1,189)	$11,343

The above activity is included in the accompanying Consolidated Balance Sheets under the following captions at March 31, 2016 and 2015 or Notes to Consolidated Financial Statements:

	March 31,	
	2016	2015
Unbilled revenue	$11,852	$18,665
Progress payments reducing inventory (Note 2)	(4,641)	(3,143)
Customer deposits	(8,400)	(4,179)
Net under (over) billings	$(1,189)	$11,343

Property, plant, equipment, depreciation and amortization

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

Business combinations

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

Intangible assets

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

Impairment of long-lived assets

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

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

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

Product warranties

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

Research and development

Research and development costs are expensed as incurred. The Company incurred research and development costs of $3,746, $3,585 and $3,436 in fiscal 2016, fiscal 2015 and fiscal 2014, 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.

Stock-based compensation

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

Income per share data

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Common shares outstanding include share equivalent units which are contingently issuable shares. Diluted income per share is calculated by dividing net income by the weighted average number of common shares outstanding and, when applicable, potential common shares outstanding during the period. A reconciliation of the numerators and denominators of basic and diluted income per share is presented below:

	Year ended March 31,		
	2016	2015	2014
Basic income per share:			
Numerator:			
Net income	$6,131	$14,735	$10,145
Denominator:			
Weighted common shares outstanding	9,976	10,123	10,056
Share equivalent units ("SEUs") outstanding	—	—	14
Weighted average common shares and SEUs outstanding	9,976	10,123	10,070
Basic income per share	$0.61	$1.46	$1.01
Diluted income per share:			
Numerator:			
Net income	$6,131	$14,735	$10,145
Denominator:			
Weighted average common shares and SEUs outstanding	9,976	10,123	10,070
Stock options outstanding	7	20	34
Weighted average common and potential common shares outstanding	9,983	10,143	10,104
Diluted income per share	$0.61	$1.45	$1.00

There were 54, 12 and 2 options to purchase shares of common stock at various exercise prices in fiscal 2016, fiscal 2015 and fiscal 2014, respectively, which were not included in the computation of diluted income per share as the effect would be anti-dilutive.

Cash flow statement

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

Interest paid was $10 in fiscal 2016, $11 in fiscal 2015, and $12 in fiscal 2014. In addition, income taxes paid were $5,423 in fiscal 2016, $6,491 in fiscal 2015, and $3,302 in fiscal 2014.

In fiscal 2016, fiscal 2015, and fiscal 2014, non-cash activities included pension and other postretirement benefit adjustments, net of income tax, of $1,470, $3,294 and $(2,275), respectively. Also, in fiscal 2016, fiscal 2015 and fiscal 2014, non-cash activities included the issuance of treasury stock valued at $255, $325 and $317, respectively, to the Company's Employee Stock Purchase Plan (See Note 11).

At March 31, 2016, 2015, and 2014, there were $53, $174, and $40, 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 2016, fiscal 2015 and fiscal 2014, capital expenditures totaling $126, $22 and $90, respectively, were financed through the issuance of capital leases.

Accumulated other comprehensive loss

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

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. The accounting 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 May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers." This guidance establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. The guidance requires companies to apply a five-step model when recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance also includes a comprehensive set of disclosure requirements regarding revenue recognition. The guidance allows two methods of adoption: (1) a full retrospective approach where historical financial information is presented in accordance with the new standard and (2) a modified retrospective approach where the guidance is applied to the most current period presented in the financial statements. In August 2015, the FASB issued ASU No 2015-14 "Revenue from Contracts with Customers: Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, with earlier application permitted as of annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," to clarify the implementation guidance on principal versus agent. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which clarifies the identifying performance obligations and licensing implementation guidance. The Company is currently evaluating the impact of adopting these ASU's and the methods of adoption; however, given the scope of the new standard, the Company is currently unable to provide a reasonable estimate regarding the financial impact or which method of adoption will be elected. See Note 1 for a description of the Company's current revenue recognition policy.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory," which simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of this ASU will have on its Consolidated Financial Statements.

In November 2015, the FASB issued guidance related to the balance sheet classification of deferred income taxes. This guidance simplifies the presentation of deferred income taxes and requires deferred tax liabilities and assets be offset and presented as a single noncurrent amount for all tax-paying components of an entity within a particular tax jurisdiction. The provisions of the guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application of the guidance is permitted as of the beginning of any interim or annual reporting period and may be applied prospectively or retrospectively to all periods presented. The provisions of the guidance were adopted by the Company in fiscal 2016, and the Company elected to apply the provisions retrospectively to all periods presented. The following table presents the impact of applying the provisions retrospectively on individual line items in the Company's Consolidated Balance Sheet at March 31, 2015:

Balance Sheet Caption	Before Application of Guidance	Reclassification	After Application of Guidance
Current deferred income tax asset	$ 647	$ (647)	$ —
Other assets	$ 150	$ (4)	$ 146
Current deferred income tax liability	$ (164)	$ 164	$ —
Long-term deferred income tax liability	$ (6,363)	$ 487	$ (5,876)

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires companies to recognize all leases as assets and liabilities on the consolidated balance sheet. This ASU retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the current accounting guidance. As a result, the effect of leases on the consolidated statement of comprehensive income and a consolidated statement of cash flows is largely unchanged from previous generally accepted accounting principles. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Earlier application is permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period and the entity must adopt all of the amendments from ASU 2016-09 in the same period. The Company is currently evaluating the impact that the adoption of this ASU will have 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 – Inventories:

Major classifications of inventories are as follows:

	March 31, 2016	2015
Raw materials and supplies	$3,178	$2,763
Work in process	11,615	13,685
Finished products	659	689
	15,452	17,137
Less – progress payments	4,641	3,143
	$10,811	$13,994

Note 3 – Property, Plant and Equipment:

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

	March 31, 2016	2015
Land	$210	$210
Buildings and leasehold improvements	18,774	18,682
Machinery and equipment	28,537	27,749
Construction in progress	70	70
	47,591	46,711
Less – accumulated depreciation and amortization	28,844	26,899
	$18,747	$19,812

Depreciation expense in fiscal 2016, fiscal 2015, and fiscal 2014 was $2,201, $2,079, and $1,977, respectively.

Note 4 – Intangible Assets:

Intangible assets are comprised of the following:

	Gross Carrying	Accumulated	Net Carrying

	Amount	Amortization	Amount
At March 31, 2016			
Intangibles subject to amortization:			
Customer relationships	$ 2,700	$ 952	$ 1,748
Intangibles not subject to amortization:			
Permits	$ 10,300	$ —	$ 10,300
Tradename	2,500	—	2,500
	$ 12,800	$ —	$ 12,800
At March 31, 2015			
Intangibles subject to amortization:			
Customer relationships	$ 2,700	$ 772	$ 1,928
Intangibles not subject to amortization:			
Permits	$ 10,300	$ —	$ 10,300
Tradename	2,500	—	2,500
	$ 12,800	$ —	$ 12,800

Intangible assets are amortized on a straight line basis over their estimated useful lives. Intangible amortization expense was $180 in each of fiscal 2016, fiscal 2015 and fiscal 2014. As of March 31, 2016, amortization expense is estimated to be $180 in each of the fiscal years ending March 31, 2017, 2018, 2019, 2020 and 2021.

There was no change in goodwill during fiscal 2016 or fiscal 2015. Goodwill was $6,938 at March 31, 2016 and 2015.

Note 5 – Product Warranty Liability:

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

	Year ended March 31,	
	2016	2015
Balance at beginning of year	$653	$308
Expense for product warranties	336	930
Product warranty claims paid	(303)	(585)
Balance at end of year	$686	$653

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

Note 6 - Leases:

The Company leases equipment and office space under various operating leases. Lease expense applicable to operating leases was $677, $596, and $563 in fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

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

	March 31,	
	2016	2015
Machinery and equipment	$280	$288
Less accumulated amortization	75	135
	$205	$153

Amortization of machinery and equipment under capital leases amounted to $40, $54 and $72 in fiscal 2016, fiscal 2015, and fiscal 2014, respectively, and is included in depreciation expense.

As of March 31, 2016, future minimum payments required under non-cancelable leases are:

	Operating Leases	Capital Leases
2017	$ 580	$ 64
2018	408	62
2019	364	55
2020	353	33
2021	238	18
Total minimum lease payments	$ 1,943	$ 232
Less – amount representing interest		20
Present value of net minimum lease payments		$ 212

Note 7 - Debt:

Short-Term Debt

The Company and its subsidiaries had no short-term borrowings outstanding at March 31, 2016 and 2015.

On December 2, 2015, the Company entered into a new revolving credit facility agreement with JPMorgan Chase Bank, N.A. that provides a $25,000 line of credit, including letters of credit and bank guarantees, expandable at the Company's option at any time up to $50,000. The agreement has a five year term. This facility replaced a similar facility with Bank of America, N.A.

At the Company's option, amounts outstanding under the agreement will bear interest at either: (i) a rate equal to the bank's prime rate; or (ii) a rate equal to LIBOR plus a margin. The margin is based on the Company's funded debt to earnings before interest expense, income taxes, depreciation and amortization ("EBITDA") and may range from 1.75% to .95%. Amounts available for borrowing under the agreement are subject to an unused commitment fee of between 0.30% and 0.20%, depending on the above ratio. The bank's prime rate was 3.50% at March 31, 2016. The interest rate under the prior facility with Bank of America, N.A. was also the bank's prime rate which was 3.25% at March 31, 2015.

Outstanding letters of credit under the agreement are subject to a fee of between 1.20% and 0.70%, depending on the Company's ratio of funded debt to EBITDA. The agreement allows the Company to reduce the fee on outstanding letters of credit to a fixed rate of .40% by securing outstanding letters of credit with cash and cash equivalents. At March 31, 2016, all outstanding letters of credit were secured by cash and cash equivalents. At March 31, 2016, there were $1,749 letters of credit outstanding on the new revolving credit facility and $8,312 with Bank of America, N.A. Availability under the line of credit was $23,251 at March 31, 2016.

Under the new revolving credit facility, the Company covenants to maintain a maximum funded debt to EBITDA ratio, as defined in such credit facility, of 3.5 to 1.0 and a minimum earnings before interest expense and income taxes ("EBIT") to interest ratio, as defined in such credit facility, of 4.0 to 1.0. The agreement also provides that the Company is permitted to pay dividends without limitation if it maintains a 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 year ended March 31, 2016. Assets with a book value of $104,059 have been pledged to secure borrowings under the credit facility.

On March 24, 2014, the Company entered into a letter of credit facility agreement to further support its international operations. The agreement provides a $5,000 line of credit to be used for the issuance of letters of credit. Under the agreement, the Company incurs an annual facility fee of 0.375% of the maximum amount available under the facility and outstanding letters of credit are subject to a fee of between 1.25% and 0.75%, depending on the Company's ratio of funded debt to EBITDA, as defined in such credit facility. The facility requires the Company to maintain a maximum funded debt to EBITDA ratio of 3.5 to 1.0 and a minimum EBIT to interest ratio, as defined in such credit facility, of 4.0 to 1.0. At March 31, 2016 there were $1,921 letters of credit outstanding and availability under the letter of credit facility was $3,079.

Long-Term Debt

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

	March 31,	
	2016	2015
Capital lease obligations (Note 6)	$212	$158
Less: current amounts	55	60
Total	$157	$98

With the exception of capital leases, the Company has no long-term debt payment requirements over the next five years as of March 31, 2016.

Note 8 - Financial Instruments and Derivative Financial Instruments:

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, investments, and trade accounts receivable. The Company places its cash, cash equivalents, and investments with high credit quality financial institutions, and evaluates the credit worthiness of these financial institutions on a regular basis. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers comprising the Company's customer base and their geographic dispersion. At March 31, 2016 and 2015, 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, 2016 and 2015, the Company was contingently liable on outstanding standby letters of credit aggregating $11,982 and $10,903, respectively. See Note 7.

Foreign Exchange Risk Management

The Company, as a result of its global operating and financial activities, is exposed to market risks from changes in foreign exchange rates. In seeking to minimize the risks and/or costs associated with such activities, the Company may utilize foreign exchange forward contracts with fixed dates of maturity and exchange rates. The Company does not hold or issue financial instruments for trading or other speculative purposes and only holds contracts with high quality financial institutions. If the counter-parties to any such exchange contracts do not fulfill their obligations to deliver the contracted foreign currencies, the Company could be at risk for fluctuations, if any, required to settle the obligation. At March 31, 2016 and 2015, there were no foreign exchange forward contracts held by the Company.

Fair Value of Financial Instruments

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

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

Investments: The fair value of investments at March 31, 2016 and 2015 approximated the carrying value and are considered Level 2 assets in the fair value hierarchy.

Note 9 – Income Taxes:

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

	Year ended March 31,		
	2016	2015	2014
United States	$8,301	$20,799	$14,127
China	429	953	583
	$8,730	$21,752	$14,710

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

	Year ended March 31,		
	2016	2015	2014
Current:			
Federal	$3,795	$6,616	$5,146
State	54	165	68
Foreign	272	79	362
	4,121	6,860	5,576
Deferred:			

Federal	(1,319)	(46)	(761)
State	(82)	(184)	(184)
Foreign	(154)	173	(240)
Changes in valuation allowance	33	214	174
	(1,522)	157	(1,011)
Total provision for income taxes	$2,599	$7,017	$4,565

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

	Year ended March 31,		
	2016	2015	2014
Provision for income taxes at federal rate	$3,055	$7,613	$5,149
State taxes	(28)	(103)	(139)
Charges not deductible for income tax purposes	64	79	59
Recognition of tax benefit generated by qualified production activities deduction	(245)	(382)	(403)
Research and development tax credits	(232)	(180)	(80)
Valuation allowance	33	214	174
Uncertain tax positions	—	—	(134)
Other	(48)	(224)	(61)
Provision for income taxes	$2,599	$7,017	$4,565

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,	
	2016	2015
Depreciation	$(2,352)	$(2,196)
Accrued compensation	247	881
Prepaid pension asset	355	(465)
Accrued pension liability	138	121
Accrued postretirement benefits	309	342
Compensated absences	571	629
Inventories	905	(1,042)
Warranty liability	242	231
Accrued expenses	702	313
Stock-based compensation	485	500
Intangible assets	(5,159)	(5,230)
New York State investment tax credit	985	952
Other	11	40
	(2,561)	(4,924)
Less: Valuation allowance	(985)	(952)
Total	$(3,546)	$(5,876)

Deferred income taxes include the impact of state investment tax credits of $311, which expire from 2016 to 2030 and state investment tax credits of $674, 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, 2016 and 2015 related to certain state investment tax credits would not be realized, and recorded a valuation allowance of $985 and $952, respectively.

The Company files federal and state income tax returns in several domestic and international jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. The Company is subject to U.S. federal examination for tax years 2013 through 2015 and examination in state tax jurisdictions for tax years 2011 through 2015. The Company is subject to examination in the People’s Republic of China for tax years 2012 through 2015. The liability for unrecognized tax benefits was $0 at each of March 31, 2016 and 2015.

Note 10 – Employee Benefit Plans:

Retirement Plans

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

The components of pension (benefit) cost are:

	Year ended March 31,		
	2016	2015	2014
Service cost during the period	$521	$546	$576
Interest cost on projected benefit obligation	1,437	1,434	1,359
Expected return on assets	(3,181)	(3,033)	(2,728)
Amortization of:			
Unrecognized prior service cost	—	4	4
Actuarial loss	1,174	580	1,002
Net pension (benefit) cost	$(49)	$(469)	$213

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

	Year ended March 31,		
	2016	2015	2014
Discount rate	3.74%	4.46%	4.28%
Rate of increase in compensation levels	3.00%	3.00%	3.00%
Long-term rate of return on plan assets	8.00%	8.00%	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 2017.

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

	Year ended March 31,	
	2016	2015
Change in the benefit obligation		

Projected benefit obligation at beginning of year	$39,052	$32,789
Service cost	417	442
Interest cost	1,437	1,434
Actuarial loss (gain)	(402)	5,573
Benefit payments	(1,350)	(1,186)
Liability released through annuity purchase	(1,710)	—
Projected benefit obligation at end of year	$37,444	$39,052
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$40,384	$38,548
Employer contribution	—	55
Actual return on plan assets	(765)	2,967
Benefit and administrative expense payments	(1,350)	(1,186)
Annuities purchased	(1,798)	—
Fair value of plan assets at end of year	$36,471	$40,384
Funded status		
Funded status at end of year	$(973)	$1,332
Amount recognized in the Consolidated Balance Sheets	$(973)	$1,332

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

	March 31,	
	2016	2015
Discount rate	3.93%	3.74%
Rate of increase in compensation levels	3.00%	3.00%

During fiscal 2016, 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 this transaction, the projected benefit obligation and plan assets decreased $1,710 and $1,798, 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. In fiscal 2015, the mortality assumption changed from the RP 2000 Mortality Table, projected to 2015 and weighted 50% blue collar for males and the RP 2000 Combined Healthy Table for females projected to 2015 to the sex district RP 2014 dollar weighted annuitant and non-annuitant Mortality Table projected to 2020 using scale MP-2014. This change resulted in an increase to the projected benefit obligation of approximately $2,145. The accumulated benefit obligation reflects the actuarial present value of benefits attributable to employee service rendered to date, but does not include the effects of estimated future pay increases. The accumulated benefit obligation as of March 31, 2016 and 2015 was $32,270 and $33,998, respectively. At March 31, 2016 and 2015, 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,	
	2016	2015
Net actuarial loss	$10,662	$9,141

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

	March 31,	
	2016	2015
Net actuarial loss arising during the year	$2,280	$3,578
Amortization of actuarial loss	(759)	(375)
Amortization of prior service cost	—	(3)
	$1,521	$3,200

The estimated net actuarial loss and prior service cost for the pension plan that will be amortized from accumulated other comprehensive loss into net pension cost in fiscal 2017 are $1,351 and $0, respectively.

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

2017	$1,239
2018	1,261
2019	1,270
2020	1,484
2021	1,639
2022-2026	8,896
Total	$15,789

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

		March 31,	
Asset Category	Target Allocation	2016	2015
Equity securities	50-70%	67 %	66 %
Debt securities	20-50%	33 %	34 %
		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, 2016 and 2015, by asset category, are as follows:

		Fair Value Measurements Using		
Asset Category	At March 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash	$ 103	$ 103	$ —	$ —
Equity securities:				
U.S. companies	20,010	20,010	—	—
International companies	4,459	4,459	—	—
Fixed income:				
Corporate bond funds				
Intermediate-term	9,520	9,520	—	—
Short-term	2,379	2,379	—	—
	$ 36,471	$ 36,471	$ —	$ —

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

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

On February 4, 2003, the Company closed the defined benefit plan to all employees hired on or after January 1, 2003. In place of the defined benefit plan, these employees participate in the Company's domestic defined contribution plan. The Company contributes a fixed percentage of employee compensation to this plan on an annual basis for these employees. The Company contribution to the defined contribution plan for these employees in fiscal 2016, fiscal 2015 and fiscal 2014 was $315, $294 and $257, respectively.

The Company has a Supplemental Executive Retirement Plan ("SERP") which provides retirement benefits associated with wages in excess of the legislated qualified plan maximums. Pension expense recorded in fiscal 2016, fiscal 2015, and fiscal 2014 related to this plan was $76, $70 and $70, respectively. At March 31, 2016 and 2015, the related liability was $391 and $341, respectively. The current portion of the related liability of $26 and $26 at March 31, 2016 and 2015, respectively, is included in the caption "Accrued Compensation" and the long-term portion is included in "Accrued Pension Liability" in the Consolidated Balance Sheets.

The Company has a domestic defined contribution plan (401k) covering substantially all employees. The Company provides matching contributions equal to 100% of the first 3% of an employee's salary deferral and 50% of the next 2% percent of an employee's salary deferral. Company contributions are immediately vested. Contributions were $866 in fiscal 2016, $940 in fiscal 2015 and $831 in fiscal 2014.

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 (income) are:

	Year ended March 31,		
	2016	2015	2014
Interest cost on accumulated benefit obligation	$29	$31	$33
Amortization of prior service benefit	—	(106)	(166)
Amortization of actuarial loss	40	35	46
Net postretirement benefit expense (income)	$69	$(40)	$(87)

The weighted average discount rate used to develop the net postretirement benefit cost were 3.11%, 3.59% and 3.26% in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

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

	Year ended March 31,	
	2016	2015
Change in the benefit obligation		
Projected benefit obligation at beginning of year	$968	$951
Interest cost	29	31
Actuarial loss (gain)	(38)	75
Benefit payments	(84)	(89)
Projected benefit obligation at end of year	$875	$968

Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$—	$—
Employer contribution	84	89
Benefit payments	(84)	(89)
Fair value of plan assets at end of year	$—	$—
Funded status		
Funded status at end of year	$(875)	$(968)

Amount recognized in the Consolidated Balance Sheets	$(875)	$(968)

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

	March 31,	
	2016	2015
Discount rate	3.16%	3.11%
Medical care cost trend rate	8.00%	8.00%

The medical care cost trend rate used in the actuarial computation ultimately reduces to 5% in 2022 and subsequent years. This was accomplished using 0.5% decrements for the years ended March 31, 2016 through 2022.

The current portion of the accrued postretirement benefit obligation of $88 and $92, at March 31, 2016 and 2015, 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, 2016	March 31, 2015
Net actuarial loss	$270	$321

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

	March 31, 2016	March 31, 2015
Net actuarial loss (gain) arising during the year	$(26)	$48
Amortization of actuarial loss	(25)	(23)
Amortization of prior service cost	—	69
	$(51)	$94

The estimated net actuarial loss and prior service cost for the other postretirement benefit plan that will be amortized from accumulated other comprehensive loss into net postretirement benefit income in fiscal 2017 are $39 and $0, respectively.

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

2017	$88
2018	84
2019	81
2020	77
2021	73
2022-2026	304
Total	$707

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

Employee Stock Ownership Plan

The Company has a noncontributory Employee Stock Ownership Plan ("ESOP") that covers substantially all employees in the U.S. There were 202 and 233 shares in the ESOP at March 31, 2016 and 2015, respectively. There were no Company contributions to the ESOP in fiscal 2016, fiscal 2015 or fiscal 2014. Dividends paid on allocated shares accumulate for the benefit of the employees who participate in the ESOP.

Self-Insured Medical Plan

Effective January 1, 2014, the Company commenced self-funding the medical insurance coverage provided to its U.S. based employees. The Company has obtained a stop loss insurance policy in an effort to limit its exposure to claims. The Company has specific stop loss coverage per employee for claims incurred during the year exceeding $100 per employee with annual maximum aggregate stop loss coverage per employee of $1,000. The Company also has total plan annual maximum aggregate stop loss coverage of $2,602. The liability of $176 and $446 on March 31, 2016 and 2015, respectively, related to the self-insured medical plan is primarily based upon claim history and is included in the caption “Accrued Compensation” in the Consolidated Balance Sheets.

Note 11 - Stock Compensation Plans:

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

In fiscal 2016, fiscal 2015 and fiscal 2014, 34, 30 and 32 shares, respectively, of restricted stock were awarded. Restricted shares of 15, 12 and 14 granted to officers in fiscal 2016, fiscal 2015 and fiscal 2014, 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 12, 11, and 12 granted to officers and key employees in fiscal 2016, fiscal 2015, and fiscal 2014 respectively, vest 33 % per year over a three-year term. The restricted shares granted to directors of 7, 7 and 6 in fiscal 2016, fiscal 2015 and fiscal 2014, respectively, vest 100% on the anniversary of the grant date. The Company recognizes compensation cost over the period the shares vest.

During fiscal 2016, fiscal 2015, and fiscal 2014, the Company recognized $653, $598, and $582, respectively, of stock-based compensation cost related to stock option and restricted stock awards, and $230, $210 and $205, respectively, of related tax benefits.

The Company received cash proceeds from the exercise of stock options of $97, $47 and $581 in fiscal 2016, fiscal 2015 and fiscal 2014, respectively. In fiscal 2016, fiscal 2015 and fiscal 2014, the Company recognized a $5, $197 and $268, respectively, increase in capital in excess of par value for the income tax benefit realized upon exercise of stock options and vesting of restricted shares in excess of the tax benefit amount recognized pertaining to the fair value of stock awards treated as compensation expense.

The following table summarizes information about the Company's stock option awards during fiscal 2016, fiscal 2015 and fiscal 2014:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at April 1, 2013	146	$ 16.04		
Exercised	(52)	11.31		
Forfeited	(1)	19.15		
Outstanding at March 31, 2014	93	18.60		
Exercised	(2)	19.66		
Forfeited	(1)	18.65		
Outstanding at March 31, 2015	90	18.57		
Exercised	(7)	13.30		
Forfeited	—	—		
Outstanding at March 31, 2016	83	19.03	4.37 years	$ 238
Vested or expected to vest at March 31, 2016	83	19.03	4.37 years	238
Exercisable at March 31, 2016	83	19.03	4.37 years	238

The following table summarizes information about stock options outstanding at March 31, 2016:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining

	at March 31, 2016		Contractual Life
			(in years)
$ 6.90- 7.98	6	$ 7.00	1.08
12.52-15.25	23	14.64	3.19
18.65-21.19	42	18.94	6.06
30.88-44.50	12	33.04	2.20
6.90-44.50	83	19.03	4.37

The total intrinsic value of the stock options exercised during fiscal 2016, fiscal 2015 and fiscal 2014 was $71, $32 and $1,221, respectively. As of March 31, 2016, there was $1,063 of total unrecognized stock-based compensation expense related to non-vested stock options and restricted stock. The Company expects to recognize this expense over a weighted average period of 1.44 years.

The outstanding options expire between June 2016 and May 2022. Options, stock awards and performance awards available for future grants were 377 at March 31, 2016.

The following table summarizes information about the Company's restricted stock awards during fiscal 2016, fiscal 2015 and fiscal 2014:

	Restricted Stock		Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested at April 1, 2013	61		$ 18.51	
Granted	32		24.00	
Vested	(24	)	17.20	
Forfeited	(5	)	15.81	
Non-vested at March 31, 2014	64		21.93	
Granted	30		28.36	
Vested	(15	)	23.04	
Forfeited	(9	)	21.56	
Non-vested at March 31, 2015	70		24.47	
Granted	34		23.13	
Vested	(28	)	23.23	
Forfeited	(6	)	19.75	
Non-vested at March 31, 2016	70		25.03	$ —

During fiscal 2014, the Company terminated its Long-Term Incentive Plan, which provided for awards of share equivalent units ("SEUs") for outside directors based upon the Company's performance. Upon termination, the final value of the share equivalent units was determined and the related share equivalent units were cancelled. The liability at March 31, 2016 and 2015 was $0 and $158, respectively. During fiscal 2016 and fiscal 2015, $158 and $157, respectively, was paid to the participating directors.

The Company has an Employee Stock Purchase Plan (the "ESPP"), which allows eligible employees to purchase shares of the Company's common stock on the last day of a six-month offering period at a purchase price equal to the lesser of 85% of the fair market value of the common stock on either the first day or the last day of the offering period. A total of 200 shares of common stock may be purchased under the ESPP. In fiscal 2016, fiscal 2015 and fiscal 2014, 16, 12 and 16 shares, respectively, were issued from treasury stock to the ESPP for the offering periods in each of the fiscal years. During fiscal 2016, fiscal 2015 and fiscal 2014, the Company recognized stock-based compensation cost of $44, $55 and $57, respectively, related to the ESPP and $16, $19 and $20, respectively, of related tax benefits. The Company recognized a $1, $3 and $3 increase in capital in excess of par value for the income tax benefit realized from disqualifying dispositions in excess of the tax benefit amount recognized pertaining to the compensation expense recorded in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Note 12 – Changes in Accumulated Other Comprehensive Loss:

The changes in accumulated other comprehensive loss by component for fiscal 2016 and fiscal 2015 are:

	Pension and Other Postretirement Benefit Items	Foreign Currency Items	Total
Balance at April 1, 2014	$ (6,168)	$ 403	$(5,765)
Other comprehensive income before reclassifications	(3,626)	3	(3,623)
Amounts reclassified from accumulated other comprehensive loss	332	—	332
Net current-period other comprehensive income	(3,294)	3	(3,291)
Balance at March 31, 2015	(9,462)	406	(9,056)
Other comprehensive income before reclassifications	(2,255)	(150)	(2,405)
Amounts reclassified from accumulated other comprehensive loss	785	—	785
Net current-period other comprehensive income	(1,470)	(150)	(1,620)
Balance at March 31, 2016	$ (10,932)	$ 256	$(10,676)

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

Year ended March 31, 2016

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	$ — (1)	
Amortization of actuarial loss	(1,214)(1)	
	(1,214)	Income before provision for income taxes
	(429)	Provision for income taxes
	$ (785)	Net income

Year ended March 31, 2015

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

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

Note 13 - Segment Information:

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

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

	Year ended March 31,		
	2016	2015	2014
Heat transfer equipment	$31,479	$58,224	$37,086
Vacuum equipment	28,323	28,698	27,236
All other	30,237	48,247	37,896
Net sales	$90,039	$135,169	$102,218

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

	Year ended March 31,		
	2016	2015	2014
Net Sales:			
Africa	$112	$237	$152
Asia	8,859	11,253	11,486
Australia & New Zealand	230	330	307
Canada	8,702	15,807	11,419
Central America	36	1,772	3,210
Europe	856	943	2,091
Mexico	620	407	728
Middle East	11,039	10,155	4,350
South America	2,558	7,866	4,625
U.S.	57,027	86,399	63,850
Net sales	$90,039	$135,169	$102,218

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.

There were no sales to a single customer that amounted to 10% or more of total consolidated net sales in fiscal 2016, fiscal 2015 or fiscal 2014.

Note 14 – Restructuring Charge:

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

	Year ended March 31, 2016	Year ended March 31, 2015
Balance at beginning of year	$1,718	$—
(Income) expense for restructuring	(3)	1,718
Amounts paid for restructuring	(1,641)	—
Balance at end of year	$74	$1,718

The liability of $74 at March 31, 2016 and the current portion of the liability of $1,594 at March 31, 2015 are included in the caption “Accrued Compensation” in the Consolidated Balance Sheets. The long-term portion of $124 at March 31, 2015 is separately presented in the Consolidated Balance Sheet.

NOTE 15 – Other Income:

During fiscal 2016, certain orders from customers were cancelled. The contracts for the cancelled orders included provisions that entitled the Company to cancellation charges. The amount of the cancellation charges were negotiated and settled with the customers. This income, net of costs incurred on the contracts, of $1,789 is presented in the caption “Other Income” in the fiscal 2016 Consolidated Statement of Operations.

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. For the year ended March 31, 2016, the Company had purchased 539 shares at an aggregate cost of $9,441 under this program. No shares were purchased under this program in fiscal 2015.

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 suits that named the Company as a defendant, which either were dismissed when it was shown that the Company had not supplied products to the plaintiffs' places of work or were settled for immaterial amounts.

As of March 31, 2016, the Company was subject to the claims noted above, as well as other legal proceedings and potential claims that have arisen in the ordinary course of business.

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

Note 18 - Quarterly Financial Data (Unaudited):

A capsule summary of the Company's unaudited quarterly results for fiscal 2016 and fiscal 2015 is presented below:

Year ended March 31, 2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 27,617	$ 22,798	$ 17,323	$ 22,301	$ 90,039
Gross profit	8,037	7,135	3,524	4,559	23,255
Net income	2,361	1,976	1,274	520	6,131
Per share:					
Net income:					
Basic	$ .23	$ .20	$ .13	$ .05	$ 0.61
Diluted	$ .23	$ .20	$ .13	$ .05	$ 0.61
Market price range of common stock	$19.82-25.25	$15.71-20.60	$15.63-18.88	$14.39-20.24	$14.39-25.25

Year ended March 31, 2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Net sales	$ 28,502	$ 35,566	$ 33,646	$ 37,455	$ 135,169
Gross profit	7,932	10,984	10,103	12,785	41,804
Net income	2,392	4,186	3,992	4,165 (1)	14,735 (1)
Per share:					
Net income:					
Basic	$ .24	$ .41	$ .39	$ .41	$ 1.46
Diluted	$ .24	$ .41	$ .39	$ .41	$ 1.45

Market price range of common stock	$26.20-34.88	$27.99-35.35	$26.06-34.65	$20.58-28.86	$20.58-35.35

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Graham Corporation

Batavia, New York

We have audited the accompanying consolidated balance sheets of Graham Corporation and subsidiaries (the "Company") as of March 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Graham Corporation and subsidiaries as of March 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of March 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 1, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Rochester, New York
June 1, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Graham Corporation

Batavia, New York

We have audited the internal control over financial reporting of Graham Corporation and subsidiaries (the "Company") as of March 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A of its Annual Report on Form 10-K for the year ended March 31, 2016. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended March 31, 2016 of the Company and our reports dated June 1, 2016 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

/s/DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Rochester, New York
June 1, 2016

Part IV

Item 15. Exhibits, Financial Statement Schedules

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Graham Corporation

Batavia, New York

We have audited the consolidated financial statements of Graham Corporation and subsidiaries (the "Company") as of March 31, 2016 and 2015, and for each of the three years in the period ended March 31, 2016, and the Company's internal control over financial reporting as of March 31, 2016, and have issued our reports thereon dated June 1, 2016; such consolidated financial statements and reports are included in this Form 10-K. Our audits also included the consolidated financial statement schedule of the Company listed in Item 15. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Rochester, New York
June 1, 2016

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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, 2016					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 62	$ 38	$ —	$ (9)	$ 91
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$ 653	$ 336	$ —	$ (303)	$ 686
Reserves included in the balance sheet caption "accrued compensation"					
Restructuring reserve	$ 1,718	$ (3)	$ —	$ (1,641)	$ 74
Year ended March 31, 2015					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 46	$ 24	$ —	$ (8)	$ 62
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$ 308	$ 930	$ —	$ (585)	$ 653
Reserves included in the balance sheet caption "accrued compensation"					
Restructuring reserve	$ —	$ 1,718	$ —	$ —	$ 1,718
Year ended March 31, 2014					
Reserves deducted from the asset to which they apply:					
Reserve for doubtful accounts receivable	$ 33	$ 19	$ —	$ (6)	$ 46
Reserves included in the balance sheet caption "accrued expenses"					
Product warranty liability	$ 408	$ 125	$ —	$ (225)	$ 308

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.

(10) Material Contracts

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

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

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

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

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

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

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

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

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

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

#	10.11	Form of Director Restricted Stock Agreement is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009.
#	10.12	Form of Employee Non-Qualified Stock Option Agreement is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009.
#	10.13	Form of Employee Time-Vested Restricted Stock Agreement is incorporated herein by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013.
#	10.14	Form of Indemnification Agreement between Graham Corporation and each of its Directors and Officers is incorporated herein by reference from Exhibit 99.2 to the Company's Current Report on Form 8-K dated January 29, 2010.
#	10.15	Form of Employee Performance-Vested Restricted Stock Agreement is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013.
#	10.16	Amended and Restated Employment Agreement between Graham Corporation and Jeffrey F. Glajch executed and effective on July 29, 2010 is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2010.

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

10.18 Compensation information, including information regarding restricted stock grants made to the Company’s named executive officers under the Amended and Restated Graham Corporation Incentive Plan to Increase Shareholder Value and named executive officer cash bonus information, previously filed on the Company’s Current Report on Form 8-K dated May 28, 2015, is incorporated herein by reference.

10.19 Compensation information regarding named executive officer base salaries previously filed on the Company’s Current Report on Form 8-K dated March 23, 2016 is incorporated herein by reference.

10.20 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.

10.21 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.

10.22 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.

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

10.24 Credit Agreement between the Company and JPMorgan Chase Bank, N.A., dated December 2, 2015 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, 2015.

10.25 Revolving Credit Note between the Company and JPMorgan Chase Bank, N.A., dated December 2, 2015 is incorporated herein by reference from Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015.

10.26 Pledge and Security Agreement between the Company and JPMorgan Chase Bank, N.A., dated December 2, 2015 is incorporated herein by reference from Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015.

10.27 Trademark Security Agreement between the Company and JPMorgan Chase Bank, N.A., dated December 2, 2015 is incorporated herein by reference from Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015.

10.28 Patent Security Agreement between the Company and JPMorgan Chase Bank, N.A., dated December 2, 2015 is incorporated herein by reference from Exhibit 10.5 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015.

(11) Statement re computation of per share earnings

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

(14) Code of Ethics

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

(21) Subsidiaries of the registrant

* 21.1 Subsidiaries of the registrant

(23) Consents of Experts and Counsel

** 23.1 Consent of Deloitte & Touche LLP, dated June 1, 2016
** 23.2 Consent of Deloitte & Touche LLP, dated February 8, 2017

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

** 31.1 Certification of Principal Executive Officer

** 31.2 Certification of Principal Financial Officer

(32) Section 1350 Certifications

** 32.1 Section 1350 Certifications

(101) Interactive Date File

* 101.INS XBRL Instance Document

* 101.SCH XBRL Taxonomy Extension Schema Document

* 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

* 101.DEF XBRL Taxonomy Definitions Linkbase Document

* 101.LAB XBRL Taxonomy Extension Label Linkbase Document

* 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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

SIGNATURES

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

GRAHAM CORPORATION

February 8, 2017 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.

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