

Operator: Greetings and welcome to the Graham Corporation First Quarter Fiscal Year 2013 Financial Results conference call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero, on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Graham Corporation. Thank you, Ms. Pawlowski, you may now begin.

Deborah Pawlowski: Thank you, Gloria, and good afternoon everyone. We appreciate your time here today with the Graham Corporation First Quarter Fiscal 2013 Conference Call. On the call today, I have Jim Lines, President and CEO, and Jeff Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and for the full year, and will also provide a review of the Company's strategy and outlook. There are slides on the Company website that accompany the conversation today. If you do not have them, you can find them and a press release at graham-mfg.com.

As you may be aware, we may make some forward-looking statements during this discussion, as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties, as well as other factors which could cause actual results to differ materially from what was stated here today. These risks and uncertainties and other factors are provided in the earnings release, as well as other documents filed by the Company with the Securities and Exchange Commission. These documents can be found at the Company's website or at sec.gov.

So with that, let me turn the call over to Jim to begin the discussion. Jim?

James Lines: Thanks, Deb. Good afternoon and thank you for joining us for our First Quarter Fiscal 2013 Conference Call. If you're following along on the slides, please turn to Slide 4. First quarter results were in line with expectations for both revenue and income. We generated \$22.5 million of revenue and \$1.4 million in net income. The first quarter, and for that matter the first half, will be similar to last year's third and fourth quarters. That is due to order rates during the first, second and third quarters of fiscal 2012 that averaged \$21.5 million.

Sales from the refining industry are down \$6.8 million in the quarter, while up sequentially \$800,000. Refining market sales will have a difficult comparison during the first half of this year, due to the conversion of a large Middle East refining project in the same period last year. An important aspect of this "Sales by Industry" chart is the even distribution across current key markets. In the past, we were heavily weighted in refining, which is still very important to us; however, with the strategies we undertook to diversify, there is improved market balance.

Please turn to Slide 5. Sales to the U.S. are up 12.5%, due to sales from Energy Steel, which are principally for the U.S. nuclear energy market, and those for the U.S. Naval aircraft carrier program are, of course, U.S.-based sales. Here, too, strategies implemented to diversify continue to have a positive impact on our business.

Sales into Canada were up \$2.9 million, due to the conversion of an oil sands order in the backlog. Middle East sales were down, due to this period last year including conversion of a large refinery project in that region. We do expect strong sales going forward to U.S. end users. Sales to international markets, such as Asia, the Middle East and South America, will vary greatly from period to period, due to the size and frequency of certain orders.

Please turn to Slide 6. We do believe growth rates this cycle will exceed that of the 2004 through 2009 period. This is due to expanded opportunities from nuclear energy and the naval nuclear propulsion program growth strategies that we undertook. Neither of these was implemented during the last cycle. We are in the early stages of this recovery and progress toward full recovery in our markets is slow. Nonetheless, we are very positive about growth available from our markets as recovery takes firm hold. Bouncing off the bottom through to the midpoint of our current guidance yields a 21% compound annual growth rate. This is similar to last cycle overall; however, the current cycle is in a tepid early stage. I really like what management has done to diversify and develop internal capacity, which, I feel, will provide stronger growth this cycle as we enter into a full recovery in our markets.

Please turn to Slide 7. Orders in the first quarter weren't where we expected; however, a few projects pushed into this current quarter. We identified approximately \$7 million of North American refining projects that were projected to close in the first quarter that pushed into this quarter or our third quarter. We did have one of those orders close early in July, and the other two are still available to us, hopefully closing this current quarter; if not, by Q3. Quarter bookings were \$19.7 million. I am encouraged by the level of bidding activity and the quality of bid work we are involved in. That has always been a good leading indicator for eventual new orders.

Please turn to Slide 8. These charts paint a clear picture of the value in our strategy to diversify, and it demonstrates its impact. At the end of the last peak - March 31, 2009 - backlog was \$48 million, with 80%, or approximately \$40 million, being from our two key markets at that time of oil refining and petrochemicals. Across this recent downturn, we added naval nuclear propulsion and a stout power market leg. At the end of the first quarter of this current fiscal year, refining and petrochemicals comprised 48% of backlog, or \$44 million, just about the same as on March 31, 2009, while power and other, including the Navy, are 52% of current backlog. Projecting a few years forward, I believe there will be four evenly balanced market legs, along with a grouping of our other markets.

Let me turn it over to Jeff for his review of the financial results. Jeff?

Jeffrey Glajch: Thank you, Jim, and good afternoon, everyone. Q1 sales were \$22.5 million, down 10% versus last year. Sales in the first quarter were 56% domestic and 44% international. In last year's first quarter, the split was 45% domestic and 55% international. While Graham's historical commercial markets continue to be tilted toward the international arena, Energy Steel is almost exclusively domestic, and obviously the U.S. Navy work is 100% domestic.

EBITDA margins in the first quarter were 12%, down from 20% last year, but up sequentially from 10% in the fourth quarter of fiscal 2012. Q1 net income was \$1.4 million, or \$0.14 per share, down from \$3 million, or \$0.30 per share, in Q1 last year. Cash from operations in the quarter was positive at \$5.5 million compared with a cash usage of \$1.6 million in the first quarter of last year.

On the next slide, you'll see the gross margin in the first quarter was \$27.7 million. While down from 32.8% in the first quarter last year, it was up sequentially from 25.6% in the fourth quarter of fiscal 2012. SG&A was \$4.1 million in the first quarter, up from \$3.7 million in last year's first quarter, as well as up from \$3.6 million, sequentially. This increase came from investments

made in our business to support future growth. Operating margin in Q1 was 9.6%, down from 18% last year, but up sequentially from 7.7%.

On the next slide, you'll see that orders in the first quarter were \$19.7 million, up 4% from \$19 million in the first quarter last year, but down from a very strong \$42.3 million last quarter. As we've discussed in the past, this type of quarterly fluctuation that we have seen can often be driven by movement of a few larger orders and can dramatically impact a specific quarter. We continue to recommend that investors view a longer period of at least four quarters and possibly longer to understand the direction of our business. To that end, you can see orders over the past four quarters have averaged nearly \$27 million, or a total of \$107.4 million, over that four quarter period.

Backlog at the end of June was \$92 million, down slightly from the record \$94.9 million at the end of March. We expect to convert 70% to 80% of this backlog to sales over the next 12 months. This is lower than our normal level of conversion of approximately 90%. The reason for this lower level of conversion is that we have three large projects: the U.S. Navy project and two domestic new build nuclear plants with a multi-year life. These projects in aggregate make up about one-third of our backlog.

On the next slide, you'll see that our cash position in the first quarter increased by nearly \$5 million to \$46.6 million. We continue to have a clean balance sheet with no bank debt. This allows us to focus on utilizing this cash, and, if necessary, our untapped line of credit, for future acquisition activities, as well as internal growth and investment opportunities.

Jim will complete our presentation by reiterating our full year guidance and provide some commentary on our future growth opportunities.

James Lines: Thanks, Jeff. I am now on Slide 16. As Jeff indicated, we are confirming our prior guidance. We anticipate revenue to be between \$105 and \$115 million for the full year. Gross margin is projected to be between 28% and 31%, on average. SG&A is 15% to 16% of sales and we project our effective tax rate to be between 34% and 35%.

Due to the bookings activity 12 months ago, we are expecting, and we have projected, the first-half of the current fiscal year will be lighter than the second-half. It should be comparable to our third and fourth quarters of fiscal 2012, but we do have a strong backlog and we're expecting the second half of this current fiscal year to see sales and profitability improve. As we look beyond this current fiscal year and reflect on the steps management took to develop internal capacity and add additional markets, we've set our target to double our business over the coming cycle, with our strong power segment with the addition of Energy Steel, our traditional organic business to oil refining, petrochemical, and associated markets, appearing to us to be very strong over the next several years as the markets recover more fully. And then, with the attention we've now paid to the U.S. Navy and our clear commitment to be a consistent supplier to the U.S. Navy, we have new avenues for growth. We believe those avenues will propel us to exceed \$200 million across this next cycle.

Turning to Slide 17, we do expect that order rates will begin to improve, and book to bill to be above one, as we build into a strong fiscal 2014. We are making investments ahead of the strong demand. We made them last year and we're continuing to make them this year. We

consider these two years to be positioning years to get Graham in a position to maximize the upcoming strong investment cycle we see in our markets. We will be ready for that growth.

In addition, while we're focused on investing and developing internal capacity on the customer-facing side, we do intend to expand our market share in our traditional markets and our new markets of the nuclear propulsion program and power generation, in particular; Navy nuclear; advance our market share in Asia and South America; and maintain our strong dominant position in the Middle East.

We are also building our acquisition pipeline. We have a lot of capital available on our balance sheet to put to work. Capital deployment has, as its number one priority, investing for growth, be it in operations, expanding our organic base, or adding new markets or products via acquisition. We will maintain the patience and discipline we've shown in the past for order selection, as we are in the early stages of this recovery, to ensure our bookings aren't too hurried and we miss opportunities to secure the right business.

With those brief remarks by Jeff and myself, Gloria, we'll open the call for questions.

Operator: Thank you. We will now be conducting our question and answer session. If you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Chase Jacobson with William Blair. Please proceed with your question.

Chase Jacobson: Hi, good afternoon.

James Lines: Hi Chase.

Chase Jacobson: So, Jim, in the last slide, it seems like you're pretty confident that the book to bill can be over one for the year, but in the press release this morning, the commentary seemed like it might be a little bit more cautious, just given the macro environment and some cost pressures, I guess. Is that just a little bit of conservatism, given what's going on in Europe and fears over China or are you really seeing some delays in the orders?

James Lines: Well, we are seeing some delays in orders. Just as we mentioned for the first quarter, we had a few projects, \$7 million pushed out of the quarter, that we felt very strongly were going to close in Q1. They were North American-based refining projects, so we felt pretty confident that they would close, but in the end, the investment decision by the end users, they elected to delay it one quarter. Again, we secured one of the three and the other two are still available. That's hard for us to predict, but if we remove that element of uncertainty and look at the bid activity, quality of the work we're doing, how busy our sales team is, and the interaction we're having with our customers, we can't help but feel positive. And, again, at this point, barring a slowdown for the remainder of the year, we still feel that book to bill can be above one. Our critical quarter is this quarter, Q2.

Chase Jacobson: So, when we think about the investments that you've been making, I guess we should expect that to continue. Is that right?

James Lines: That is correct. As we look at this macro environment we're in, which indeed has some uncertainty in the near-term, as a management team, we have three options. We can be conservative and worried due to the uncertainty and pull back on our investments to maximize, in the near term, our profitability. We can do nothing, because we don't know what to do. Or we can be offensive and recognize this is a timing-based issue.

We believe in the long-term fundamentals of our energy markets, and if we miss it by a couple quarters, be that as it may; we'll be ready to maximize the up cycle when it's in full stride. That's what our strategy has been. We're choosing not to be defensive. We're choosing not to do anything and we're going to be offensive minded, while we have that conviction toward the future.

Chase Jacobson: Okay. So it sounds like the bid pipeline, when we think about that sequentially, has improved. Can you give us some color on how much of that is orders not going into the first quarter or how much of that is actual new demand that's come in during this time?

James Lines: That's hard for me to parse apart, primarily because, as you might recall, our sales cycle is so long. And some of the work that we've been involved in is concept or FEED work that moves to EPC bid or that moves to final purchase decision RFPs. In many cases, we've been tracking these projects in different stages of the bidding for several months to a couple years. It's the direction of the progress of the bidding process, going from concept to FEED, FEED to EPC, EPC to formal RFP for purchase, that gives us some optimism. It's not typical that we see a good deal of new work jump into the pipeline. It's the ongoing progress of the work we've been working on for quite a while.

Chase Jacobson: Okay. That's good for me for now. Thanks.

James Lines: You're welcome.

Operator: Our next question comes from the line of Dick Ryan with Dougherty. Please proceed with your question.

Richard Ryan: Thank you. Say, Jim, in the backlog, have you seen anything cancelled or get pushed out of that?

James Lines: No, we haven't. In terms of being pushed out, Jeff pointed out that about a third of our backlog is the U.S. Navy and the Westinghouse projects, which are very massive projects. Due to the complexity of those projects, we have seen them be placed on temporary hold by Westinghouse or the Navy. That affects the conversion of those orders in a particular quarter. We had that happen to us recently, with the Westinghouse projects currently on hold, pending resolution of a couple of engineering issues - not on our side, on the side of Westinghouse. Those should be resolved in the coming weeks and we will be back into production, we believe. But in terms of suspension or cancellation, we have had nothing new. We have the one order that has been on suspension since 2008 that we're expecting to restart some time in Q2 or Q3. But other than that, the backlog conversion has been sort of typical.

Richard Ryan: Okay. Along the lines of the Navy, can you give us an update on where you are in expanding that relationship into the submarine side of the equation?

James Lines: Sure, Dick. We're extremely pleased with our progress with that strategy. A key foundation piece is getting into the sub programs. And the work I see our teams doing, with some of the initial smaller orders that we've gotten for engineering work, is suggesting to me that we're on the right track and that we will realize the objective of being a supplier to the submarine program in the coming years. I'm very confident. I'm only seeing good signs and we're pretty energized about that strategy. It is one that has a lot of missionary work, meaning a lot of ground laying has to be done before you realize incremental revenue from it, but my view is that it was the right strategy and it's on pace, if not ahead of pace, of where I thought we would be right now.

Richard Ryan: Are all of the necessary certifications in place? And when could you be bidding on some of these programs?

James Lines: I think in calendar 2013, we could expect to be bidding on some of the larger, significant orders. We're bidding on smaller projects now.

Richard Ryan: Okay.

James Lines: For submarine work.

Richard Ryan: Great. And regarding the pipeline, in the past, you've talked about the scale of the jobs there that they were getting more in number, larger in size. Are you still seeing that same trend, and are there any cost pressures starting to creep into the ordering patterns?

James Lines: We haven't seen cost pressure. Actually, materials seem to have retracted a bit. In terms of the project size, if I go back about two years ago, I would have pointed to the project sizes being smaller, on average, to where they were in 2007 and 2008. Where I think we are right now is between that low ebb and the larger project status of 2007 and 2008 - still some good-sized projects, but not the same abundance that we saw in 2007 and 2008.

Richard Ryan: Great, that's it for me. Thanks, Jim.

James Lines: You're welcome.

Operator: Our next question comes from the line of Joe Mondillo with Sidoti and Company. Please proceed with your question.

Joe Mondillo: Hey, Jim, Jeff. First question, just to clarify, going back to the ordering pattern and your feeling on how things are trending, except for the last quarter (the fourth quarter), the last five quarters have been around a \$20 million run rate, give or take. So what you're seeing is, essentially, based on bidding patterns, customer commentary, projects that you're following, and work that you're expecting or an acceleration of orders that you're expecting in the horizon. Is that fair to say?

James Lines: That's accurate. If we looked at Q1 through Q3 of fiscal 2012, it averaged about \$21.5 million. We don't feel today how we felt 12 months ago, even though we just had a \$19.7 million bookings quarter.

Joe Mondillo: So, given just the macro environment, you mentioned one order that was sort of pushed out. Have you gotten a sense that your customers, even with the projects that are on hand, have gotten maybe a little more cautious or brought back the reins in terms of capital spending?

James Lines: It would seem to us that they're a little more measured in making sure the investment decision timing is perfect, as opposed to being a little more flexible as we saw them in the past. These projects have been identified as being viable. They are go-ahead projects, but it appears to us they're waiting until the last possible moment to make the final investment decision.

Joe Mondillo: Okay. Also, in terms of the refining and petrochemical orders that you've received, where geographically did you see those in the quarter?

James Lines: We had a nice order from China, for China-based refining work. We have had some North American projects for refining. We didn't have a very large influx of renewable or nuclear energy work in the quarter. About 60% was international, so it was China, some work for South America, and a little bit for North America.

Joe Mondillo: Okay. And looking at the refining business overall, your long term growth is going to come from international still, right?

James Lines: When you think of the Graham as we repositioned the company with the nuclear energy leg and the naval propulsion leg, that's largely U.S.-based sales. But when you think of refining and petrochem, that answer is correct. It will be largely international growth for those markets.

Joe Mondillo: Okay. I guess what I'm getting at is, capacity utilization among U.S. refineries is the highest in over five years. I was just wondering what your feeling is on the U.S. market and all of the oil drilling and fracking that's going on, and the fact that capacity utilization is so high. Is there an expectation that maybe there is some more opportunity in the U.S.?

James Lines: Well, my sense on that is it's very positive. As the utilization levels increase, and also looking at the increase in investments that are being made in the oil sands area and investments that will be made around shale oil, that's going to drive demand for our equipment in the refining sector in North America. Then, we feel equally important, but different, because it wasn't available last cycle... with low cost natural gas, investments in the petrochemical sector in North America will occur this cycle, and we didn't have that lift last cycle. What that means is investments in fertilizer plants, ammonia urea plants, ethylene plants, petrochemical plants that have very large demand for our products in those facilities. We didn't see that for about a decade. Much of the 2000s had very little investment in the petrochemical space in North America, so it wasn't available last cycle, and we have some very positive signs, again, looking at the bid work we're doing and the conversations with the process licensors involved in those projects, that that will be part of our sales mix this expansion cycle, which was very nice and beneficial. We didn't have it last time.

Joe Mondillo: So given all that, excluding the nuclear side of the business, is it fair to say that instead of 65/35 international/U.S. that the story really could become more like a 50/50 U.S. versus international split, just given all those opportunities that you just mentioned?

James Lines: I would think of it, including the Navy and the power gen work, coupled with what we just said, being around 50/50, 60/40, 40/60, depending upon where we are at a given point in time. That's what I'm expecting our geographic mix to be as we go forward.

Joe Mondillo: Okay. And then just one more question. I might have missed it, but in terms of the internal capacity increases or improvements that you made, what exactly did you do there?

James Lines: Well, we're investing in people, in the middle of the Company, to execute more orders. The management team has been tasked to substantially increase the execution capacity of our middle of the Company, and we've made investments in operations or production to support that growth as well, along with continuing to perfect our outsourcing strategy. We have IT investments. We have process improvement. It's really about transactionally being able to do more within our fixed-loop line and size of the infrastructure that we have. And I think they've done a great job and there's still more we're doing there. We're much farther ahead in fiscal 2013 than we were in 2004 and 2005. We're far more ready today than we were then for a recovery.

Joe Mondillo: Okay. So is it majority headcount and maybe some other stuff? What's the breakout in terms of the headcount and 'other?'

James Lines: In terms of the cost, it's largely headcount. When we look at the incremental cost, it's adding the personnel. Some of it is for succession, but much of it is for growth.

Joe Mondillo: Okay. Great. Thank you.

James Lines: You're welcome.

Operator: Thank you. As a reminder, if you would like to ask a question, please press star, one, on your telephone keypad. A confirmation tone will indicate your line is in the question queue. Please press star, two, if you would like to remove your question from the queue.

Our next question comes from the line of Gabe Birdsall with Brasada Capital Management. Please proceed with your question.

Gabe Birdsall: Hi guys, how are you doing?

Jeffrey Glajch: Good

James Lines: Hi, Gabe.

Gabe Birdsall: Just a few questions for me. One, on the quarter, the operating cash flow, very impressive. Is this a new run rate we should be thinking about?

Jeffrey Glajch: No, Gabe, this is Jeff. The quarter cash flow was good. If you went back and looked at the last quarter, you would have seen it was a little less than we would have liked. It's

really timing on receivables more than anything else. So no, it's not a new run rate on a quarterly basis. Certainly, we do, on an ongoing basis, expect to be generating cash. But this was just a bit of a spike up, where last quarter was maybe a bit of a spike down, or relatively flat, compared with where, ideally, it would have been.

Gabe Birdsall: Yes. And then, that leads us right into the cash, at right around 30% of market cap at today's prices and growing. You have a dividend out there, and by your own admission, the recovery's been uneven, sort of ebb and flowing. My recommendation to you is I wouldn't like you to shrink the float, because your stock is so thin already. However, you could easily pay out 50% of what you're earning right now, and you'd really put a hefty dividend out there for shareholders to bind to the thesis here, to get paid to wait a little bit, as the cycle is ebbing and flowing, and maybe to take out some of the volatility of the stock for shareholders.

I've been with you guys for three or four years now and you are doing everything you possibly can to run the business in a good way. You're doing strategic deals. You're doing everything you possibly can to control what you can control. And it seems like the cycle that's out there just continues to drive the stock, rather than what you're doing on a daily, quarterly and yearly cycle basis. So, what are your thoughts? I know your business is cyclical, but I really would urge you to stress test your case and what you really could jack that dividend up to, absent any additional strategic deals like an Energy Steel. You could do both with what you're sitting on, but you need to entice shareholders to sit here, as the cycle ebbs and flows, with you a little bit longer. What are your thoughts on that?

James Lines: Gabe, certainly that's something to consider. I think our current view is consistent with where we have been, which is we believe that there can be opportunities out there to invest, both inorganically, with the acquisitions, as well as in our existing business for growth. At this time, I think we're leading down the path of continuing to wait for the right opportunity. Certainly, you're right. We could do something with a larger dividend, but we'd prefer, at this point, to hold off and, ideally, use that cash for acquisition opportunities. It gives us a lot of flexibility and, quite frankly, we do have a line of credit available also. But continuing to have that conservative balance sheet is something we'd like to have going forward.

Gabe Birdsall: I applaud you for that last statement, for sure, and don't take that lightly. But I'm looking at your business over cycles here, and you could easily pay out a 2% to 3% dividend yield at current prices without really stressing anything out.

My reason really for bringing it up is I'd rather you double or triple this Company, either organically or inorganically, whatever it may be. But the volatility of the stock probably scares a lot of people away from buying this. I think that a nice hefty dividend would give people a little confidence to ride it out a little bit longer, rather than trading it on the macro, or asking you just how a current order went. I mean, your business is lumpy. It's in years, not quarters. So those are just my thoughts and take it for what it's worth.

James Lines: Thanks, Gabe.

Gabe Birdsall: You bet.

Operator: Our next question comes from the line of Brian Rafn with Morgan Dempsey Capital Markets. Please proceed with your question.

Brian Rafn: Good afternoon, guys.

James Lines: Hi Brian.

Brian Rafn: Are you guys seeing any pressures on commodity feedstocks, fuels, resins, anything on the cost of goods sold?

James Lines: Brian, we've seen a little pullback, a favorable reduction in costs, but we don't think that's going to be long lived. We look at the commodities continuously for our large projects to make sure our cost basis is reflected properly in our bids. But just to answer the question, we've seen a slight pullback in steel, copper, and nickel based alloys, but, again, we don't think it's long lived.

Brian Rafn: Okay. What was your headcount addition in number of employees that you guys have been adding? You talk about the middle of the Company...

James Lines: Right. Excluding the addition of Energy Steel, which adds about 55 employees, when we were in the fiscal year 2010 time frame, our headcount was 240 - 245. Our current headcount now is about 285.

Brian Rafn: Okay. I'm assuming some of that would be engineering, and maybe your comment on what you guys see in the scarcity of qualified engineers?

James Lines: We have added to our engineering team. There were certainly, with strategic intent, additions there to prepare our business for what we're seeing as strong demand as the markets more fully recover, and we wanted to get ahead of it while we had the opportunity. That was not something we were able to do in our past, but we're doing it now.

Brian Rafn: All right. Then jumping over to the Navy side, obviously you have naval propulsions with the CVN 78, the Gerald R. Ford... have you seen any bid work on CVN 79, the John F. Kennedy?

James Lines: Well, the order that we have in backlog is for CVN 79.

Brian Rafn: Oh, it is for the Kennedy?

James Lines: That's Gerald R. Ford.

Brian Rafn: Ok, then the Kennedy's the CVN 80.

James Lines: We haven't seen 80 yet.

Brian Rafn: Okay.

James Lines: They're working on 78 - they being the shipyard - to 79 now. There's more work to be awarded and we hope to secure some additional work for CVN 79. We've not seen CVN 80 work yet.

Brian Rafn: Okay. You guys talked about the submarine side, and you know there has been all this kicked around with the sequestration and potential from the Navy down from John Lehman's days under Regan at 600 ships to kind of a target of 330 and potentially going to 238. On top of that, with the focus on littoral combat ships - correct me if I'm wrong, I don't think those are nuclear powered. If the Navy were to shrink, does that at all pressure you or do you see it more like just naval carriers and submarines?

James Lines: I don't think it changes our strategy, Brian. What we're being advised now is the decision has been to maintain an eleven vessel carrier program, with carrier life being about 50 years; therefore, every five years, a new carrier is under construction and one in four are end-of-life. We've heard there may be a consideration of dropping that down to a ten vessel carrier program. Regardless of whether it's nine, ten or eleven carriers, the carrier program for us is an opportunity of about \$40 million of addressable opportunity, currently, that would come along every five to seven years. That's very big for us, when the revenue cycle is three to five years, three years, roughly. That's great baseline work. We don't see it dropping below roughly where it is, we're being told, but even if it did fall back by one vessel, it's not a big worry to us.

Also, the submarine program has a lot more consistency to it, in terms of work being released every year for the two different sub programs. Our strategy is to get into those programs and become a supplier consistently to the sub programs. We started that journey about a year ago. I'm very pleased with where we are and I'm very confident that we'll be a player in that segment of the Navy business. Our team has just done a great job to get us to this point.

Brian Rafn: Specifically on that submarine contract, are you talking about new work on new Virginia class submarines or are you talking about retrofits on the Seawolf and Los Angeles class fast attack boats?

James Lines: We're talking about the next generation of Ohio class sub replacement program and then breaking into the Virginia class program.

In the Virginia class program, I don't have these numbers exactly right, but there are 40 or 45 vessels planned. Eighteen have been let, so there's another 25 or 30 to be a part of, and that's very good work that we want to be part of.

Brian Rafn: Okay. And with the Ohio class, the SLB and boomer boats and the subsequent on that, if you look at the Congressional Research Service or whatever, most of that is a lot of talk. Are you actually getting hard discussions on that replacement or is it a little like the Air Force and the ICBM next generation, where it's a lot of skepticism, but you don't really see hard designs?

James Lines: I would say we're seeing activity on the latter.

Brian Rafn: Okay. And you talked, too, about your bid quote activity. Could you break it out by your mix - refining, petrochemical, power, and other? Is bid quote activity in one area of business any heavier than another?

James Lines: Fortunately, we see it pretty balanced across a good amount of work in refining and a good amount of work for petrochemical markets. The Navy activity is very steady, much more than it had been in our history in terms of the bidding activity. In the nuclear market,

having Energy Steel for just 18 months now, it's hard to draw some time based comparisons, but we're pretty busy with the bid work that we're doing in the nuclear market. And then, renewable energy, biomass energy, that's very active for us, as well. Across our key growth markets of power, the Navy, oil refining and petrochem, it's a pretty balanced amount of bid work and we're very busy. When I think about the last cycle, and it might play out this cycle as well, petrochem led the way, initially, ahead of refining. That may play out again this time.

Operator: Our next question comes from the line of Jason Ursaner with CJS Securities. Please proceed with your question.

Jason Ursaner: Good afternoon. I just want to follow up on those last questions, to make sure I understand the work on the Navy. Was there a specific reason you didn't win content on the 78?

James Lines: Yes, our price was high. It was competitively bid, and we weren't the low bidder. That happens sometimes, but I can say, in my experience, sometimes the best order is the one you lost, and what you've been able to capitalize on with that lost order. As I reflect upon losing that, and what we've done in response to that, I think we're much farther ahead.

Jason Ursaner: Okay. And the \$25 million order on the CVN-79, how much has been delivered to date versus what's left in backlog?

James Lines: Through Q1, between 25% and 30% of that project has been completed.

Jason Ursaner: Okay. And at the time you won that contract, what would you have estimated your maximum potential dollar content was at that point versus the \$40 million addressable content today?

James Lines: The same. There are three or four components that we hope to provide. We've gotten one of the components for CVN-79, the \$25 million order that you spoke to just a moment ago. There are two or three other items that we are pursuing, but have not been awarded yet, that would then expand our supply from where we are to perhaps \$40 million in total. The other components have not been released yet.

Jason Ursaner: And those components, have those been awarded on the 78? Is the 78 completely done at this point for you, from an order perspective?

James Lines: From what we can address, yes.

Jason Ursaner: Okay. And on the CVN-80, there's been nothing awarded at all?

James Lines: That is correct.

Jason Ursaner: Has there been any thought for these last two to three components that have potential block purchase at all, given that they lengthened the construction period on the 79?

James Lines: I don't think they'll group them together. I think they'll award them individually. I would project that perhaps one item will close this fiscal year, and, hopefully, we will be successful on that.

Jason Ursaner: Okay. I appreciate the commentary. Look forward to seeing you guys at our conference.

James Lines: You're very welcome, and thanks for inviting us to the conference.

Operator: Our next question comes from the line of Chris McCampbell with Southwest Securities. Please proceed with your question.

Chris McCampbell: Hey Jim, Jeff.

James Lines: Hi Chris.

Chris McCampbell: Can you give a little bit more color on where we are on the acquisition pipeline? I thought Gabe's points on cash flow and maybe doing something for long-term shareholders was right on. I certainly agree that you need as big a war chest as possible, but some help would be awesome. I'd love to hear the answer.

James Lines: Sure, Chris. As we did with our process around Energy Steel in that acquisition, we will look at a lot of companies. We are currently looking at a good number of companies, and weed through to make sure that we find somebody that has a long-term strategic fit.

As for sitting on the cash right now, we'd love to be able to put it to use immediately on an acquisition, but we want to make sure that the acquisition we make is the right one. With Energy Steel, we took our time and we believe we are being rewarded for taking our time. If the right opportunity fell on our lap today, great, but usually with this kind of process, it will take some time. There are a lot of companies out there that are looking at where they are, where the cycle is, and a good number of them would be willing to sell themselves. We just have to find the one that's the right fit. I guess patience is a virtue in this particular case.

Chris McCampbell: Would you say it's a factor of price or is it just finding the right fit in terms of geography and counter-cyclical to what you are doing in other places?

James Lines: It's more the latter. I don't think its price. We've seen some pricing increases on the M&A side. I don't think anything's out of range at this point. It's really finding the right company that's the right long term strategic fit for us.

Chris McCampbell: Okay. Thanks guys.

Operator: Our next question comes from the line of Joe Mondillo with Sidoti & Company. Please proceed with your question.

Joe Mondillo: I just have one quick follow-up question. In terms of pricing and margin, I was wondering if you could talk about the trends that you're seeing over the last couple quarters or so. Has anything changed from six months ago? Things really improved six months ago and things have plateaued a little bit here, just given the uncertainty. Can you talk about what you're seeing there?

James Lines: That's a great question and that's one of the leading indicators that we look at as management to give us an indication of market health. We have begun to see the profitability of

our new wins over the last six months continue to improve compared with the same period the last 24 months, so we are seeing a healthier marketplace and a healthier pricing environment. We would attribute that to a couple things; one is our price strategies. But outside of that, we've also seen a larger number of project opportunities at a given point in time being available to the market, to the equipment suppliers. We're not competing against our competition for a scarce few big projects, so that has helped. Also, preferentially, we've seen the EPCs, Engineering Procurement Construction contractors that are less price sensitive in their purchase decisions win work. We're very encouraged by it as we watch the backlog of CB&I, Fluor, KBR, and Jacobs. Those can be improved pricing environments, if we are winning work from Asian EPCs.

Joe Mondillo: So when you think about your gross margin range, has that changed at all in terms of one end or the other over the last six months?

James Lines: I think, with respect to the guidance as it relates to fiscal 2013, a big factor there is capacity utilization. We have some capacity we still need to fill to get the right leverage. This quarter is pivotal for that in terms of the order intake that we receive this quarter and the timing of when our customers need shipment. That can have a large influence on the actual realized margin, in addition to the pricing power that we might be able to garner. I view this quarter really as a very important staging quarter for the rest of the year.

Joe Mondillo: Okay, great. Thank you.

Operator: Our next question comes from the line of Tom Spiro with Spiro Capital. Please proceed with your question.

Tom Spiro: Tom Spiro, Spiro Capital. Good afternoon.

James Lines: Hi Tom.

Jeffrey Glajch: Hi Tom.

Tom Spiro: Jim, I was a little curious about the Canadian oil sands market. I wonder whether the tone of that market may have shifted in the last few months as prices have come down. Growth is sluggish, with a lot more oil coming out of the fracking process in the United States. Do you find your customers up there looking at the future with as much enthusiasm as they might have been six to 12 months ago?

James Lines: That's very astute. We've seen some increased tentativeness, a slowing of a couple projects, and a shelving of one or two. I'm not certain that was attributed to the direction of oil or the increased availability of shale oil, but we have seen over the last two quarters some change, and more toward a tentative change, being more cautious. We still see, though, that there's going to be considerable investment there. While some projects have fallen to the side for a moment, we think they'll be reactivated in one or two years.

So, it's a timing issue, and in any respect, though, we've always seen the oil sands marketplace for us never really be more than one or two big projects in an 18-month period. That's just the pacing of those projects. There's huge human resource need for those projects and they don't really move in a large cluster. They move one or two at a time over an 18-month period, so it seems to be who gets there first.

Tom Spiro: Thanks very much.

James Lines: You're welcome.

Operator: Gentlemen, we have no further questions at this time. I would like to turn the floor back over to you for closing comments.

James Lines: Well, thank you very much. We appreciate your time this afternoon and your interest in Graham. I am very pleased with where we are, as we look at the steps we took over the last two years to get Graham ready to grow more aggressively in the coming cycle. The diversity we've added through the addition of Energy Steel, the focus we have on the Naval Nuclear Propulsion Program and the strength we see in our traditional markets of oil refining and petrochemicals give a strong indication that being able to double our business over the next cycle is very possible. We look forward to updating you on our progress during the next call in 90 days. Thank you.

Operator: This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.