Operator: Greetings, and welcome to the Graham Corporation Third 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. You may begin.

Deborah Pawlowski: Thank you, Christine, and good morning, everyone. We certainly appreciate your joining us here today for the Graham Corporation Third Quarter Fiscal Year 2013 conference call. On the call, we have James R. Lines, President and CEO; and Jeffrey F. Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and then will handle the Q&A session afterwards. They will be talking to the slides that you should have, and if you don't, you can get them on the Company's website at www.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 with other documents filed by the Company with the Securities and Exchange Commission. You can find these documents at the Company's website or at www.sec.gov.

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

Jim Lines: Thank you, Debbie, and welcome to our third quarter results and outlook update conference call. Please refer to slide 3.

Our strategic plan is to double revenue and exceed $200 million at the peak of this next cycle. Very deliberate actions were taken in the past few years to expand our execution capacity; diversify markets served, in particular the addition of a strong power market leg and the planned growth of revenue from the defense market; and to strengthen our brand and position in Graham's traditional refining and petrochemical markets. We will remain committed to improving our selling and operating models that are suited for engineered-to-order products and serving global energy markets.

Turning to slide 4, sales in the third quarter were $25.6 million, up 5.4% from the same quarter last year. International sales represented 55% of total sales, as sales to international markets expanded 37%, to $14.2 million. Sales to the Middle East, specifically Saudi Arabia, expanded $4 million compared to last year due to conversion of large refining and petrochemical market projects in our backlog. Sales to Asia were up $2 million, primarily due to three refining projects for China that are in production now. U.S. sales were down $2.5 million compared to the same quarter last year due to delays in fabrication caused by the customers for a large order for an aircraft carrier; also, delays in the U.S.-based nuclear power facilities projects and orders for existing U.S.-based nuclear plants.

Gross profit was up 10.3%, to $7.1 million, with gross margin in the quarter at 27.8%. Operating margin was 11.6% of sales, excluding $975,000 related to a reserve reversal connected to Energy Steel. Jeff will review this in greater detail in subsequent slides.

We had a strong quarter from a cash generation standpoint, with $8.7 million in cash from operations. Lastly, yesterday, the Board of Directors approved an increase in our annual dividend rate from $0.08 per share to $0.12 per share.

The Board is confident in our performance and long-term outlook for the business, our balance sheet is solid, the business continues to generate strong cash flow, and as we maintain our focus on strategic acquisitions, we have the ability to raise our dividend by 50%. We plan to continue to review the dividend over time as part of our commitment to building shareholder value.

Moving on to slide 5, sales to refining and petrochemical markets expanded significantly in the quarter compared to last year. This is an indication that these markets continue to improve. Sales were up 38% for chemical and petrochemical markets. In the refining market, sales expanded 45% to just under $11 million. The delays in fabrication of surface condensers for the aircraft carrier order, along with delays in the production of components for the U.S.-based new build and existing nuclear power orders in our backlog impacted domestic sales in the quarter. These are delays caused by the customer or end user that result in the sales shortfall in third quarter pushing entirely out of the current fiscal year. We don't consider these orders as being at risk; engineering stops and fabrication delays are common for these types of complex orders. Please turn to slide 6.

A metric we watch closely, is how incremental sales translates to expansion of gross and operating profit, along with EBITDA. I have discussed in the past that our degree of operating leverage is nominally 2.0, such that gross and operating profit expands at roughly twice the rate revenue does. That occurred this quarter, with sales up 5.4%, and the dropdown was about twice that rate. This confirms to me that our managers are controlling costs as we grow, keeping their focus on process improvement and quality, and that pricing, at worst, is holding and perhaps becoming stronger. We saw a very favorable result in this particular quarter with our operating leverage.

With that, let me turn it over to Jeff. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. If you could turn to slide 7, SG&A was $3.2 million in the third quarter; however, this included a $975,000 benefit from the reversal of a contingent earn-out provision related to the Energy Steel acquisition. Adjusting for this item, SG&A was $4.2 million, up from $3.8 million last year.

Let me provide a little color regarding the Energy Steel provision reversal. We purchased Energy Steel in December 2010 for $18 million and provided the seller with the ability to earn two additional payments of $1 million each based on the business achieving a $4 million EBITDA level in each of the first two calendar years after the acquisition. The calculation of this $4 million EBITDA allowed for a handful of adjustments based on changes made to the business post-acquisition. For calendar year 2011, the earn-out threshold was achieved and we made the payment to the seller in January of 2012. For calendar year 2012, the earn-out was not achieved. We had expected the earn-out to be achieved; however, due to a combination of slower orders in the first half of this fiscal year, specifically the quarters ending in June and September, combined with some timing delays around a couple of larger projects, the threshold was not achieved.

Despite not achieving the threshold earn-out in calendar year 2012, we continue to be quite pleased with the Energy Steel acquisition. Let me provide a few metrics as we look back at the first two years of owning the business. Final purchase price, all in, including the payment of the first earn-out, as well as a post-closing working capital adjustment, ended up at $18.5 million. Our purchase price to average EBITDA was approximately 5.5x. Cash flow continues to be strong in this business and we have returned approximately 40% of the total purchase price back to Graham in cash since the acquisition. The backlog in the business has grown from $8.5 million in 2010 to approximately $20 million today. We believe we've been successful in retaining and strengthening Energy Steel's position in the domestic MRO market, and we've also won major projects at the new nuclear facilities being built in South Carolina and Georgia. In addition, we have won international orders in China, South Korea and Eastern Europe.

On to slide 8, EPS in Q3 was $0.30, $0.21 or $2.1 million in net income when excluding the aforementioned earn-out reversal. This was up 26% from $0.16 or $1.6 million of net income last year. Our tax rate in the quarter was low, at 22.5%, well below our norm, which is in the low 30s. This was driven by effect of the earn-out reversal which was not tax effected.

Looking at slide 9, our year-to-date results, in the first nine months of fiscal 2013, sales were $74.1 million, down 11% compared with last year. We expect to close that gap in Q4 with a much stronger Q4 this year than last year. Gross profit and EBITDA margins are also lower this year compared with last year. In both cases, the year-over-year improvement in the third quarter was more than offset by the strength of the financial results in the first half of last fiscal year, when we had a couple of high profit Middle Eastern refinery projects that had been won during the previous up cycle.

Cash flow from operations in the first nine months of fiscal 2013 were quite strong, at $14.9 million, $8.7 million of which occurred in the third quarter. Our year-to-date cash flows was more than double our year-to-date net income due to continued to working capital improvements. Our net working capital, excluding cash and investments, is $5.1 million or approximately 5% of annualized sales.

Moving to slide 10, you can see our cash position has increased by over $13 million in the first nine months of this year to $55.1 million. We continue to have a clean balance sheet with no bank debt. This will allow us to focus on utilizing this cash, and if necessary, our untapped line of credit for future acquisition activities, as well as continued internal growth investment opportunities. As Jim mentioned, and you may have seen last night, we increased our dividend 50% to $0.03 per quarter or $0.12 per year. We are confident in our business and that our end markets will continue growing forward and this dividend is evidence of that.

Moving to slide 11, we wanted to provide full year guidance. The revenue of $102.5 million to $107.5 million; a gross margin of 29% to 31%; SG&A of 16.5% to 17% when excluding the earn-out benefit, which translates to 15.5% to 16% when you include that benefit; and finally, a tax rate of 29% to 30%. This rate is lower than our normal tax rate level for two reasons. It includes the benefit of the earn-out adjustment not being tax effected, which effectively lowered the rate by 200 basis points, but it also includes the expected benefit that we will book in the fourth quarter related to the recently reinstated R&D tax credit which was part of the tax law signed in early January 2013. This R&D tax credit lowered our rate an additional 100 points from where it would have been. So again, after those adjustments, our effective tax rate will be 29% to 30% for the year.

With this, I'd like to pass the microphone back over to Jim to complete our presentation by discussing our backlog level and our strategic focus going forward.

Jim Lines: Thank you, Jeff. And for your reference, I am referring now to slide 12. Orders continued to improve on a sequential and trailing twelve month basis. We had $112 million in orders the past 12 months, and that compares to $91 million the same period one year ago. Our markets continued to improve, albeit at a slower pace than we wished to see. There has been a clear hesitancy by customers to commit to a final investment decision during the past several quarters. We aren't viewing that to be a reflection of the underlying demand but more a measured pace by the customers as they commit their capital to these projects.

I've mentioned during the past several conference calls that our pipeline of bidding activity supports our enthusiasm for the direction of our markets. During the past 12 months, the aggregate total of our bidding activity is $800 million to $900 million for our traditional markets and the traditional Graham prior to Energy Steel's acquisition. That does compare with $300 million to $400 million in the fiscal 2004 timeframe, just ahead of the massive expansion in our markets we experienced during the fiscal 2005 through fiscal 2009 period. We continue to believe quarterly order expansion is a timing issue rather than a market health issue, and steps taken to develop internal capacity and to be ready for a surge of business will enable us to achieve our goal of doubling the revenue level for Graham as we reach the next peak of this cycle. On to slide 13.

Our backlog remains healthy, at just over $90 million. We expect 75% to 85% of current backlog converts over the next 12 months. As our bidding pipeline moves toward a steady pace of purchase decisions, we expect backlogs to begin to expand. As you can see, our backlog is more diversified than in our past. In our past, refining and petrochemical markets would represent two thirds to three quarters of our backlog. Due to strategies to diversify, refining and petrochemicals represent about half of the backlog today, and in dollar terms, the magnitude of the refining and petrochemical backlog is about the same as it was at our last peak. On to slide 14, please.

Our current strategic plan and focus is centered on achieving sustainable earnings growth by managing expansion cycles, while keeping the eventual downturn in our mind and focusing on where profitability will be during the downturn. We're also focused on reducing earnings volatility via diversifying markets, strengthening the level of the less cyclical segments of our business and improving our operating model. The Energy Steel acquisition, as an example, provided several benefits that should reduce earnings volatility such as access to a new market, the nuclear power market; also, increasing less cyclical aftermarket business as Energy Steel primarily served the existing nuclear market with repair, replacement and upgrading of existing equipment; and lastly, it provides a strong market segment that won't necessarily vacillate when refining and petrochemical markets move higher or trend downward.

We are committed to investing in our people, improving our workflows and processes and investing in our operations to leverage our human and plant assets. Graham has come a long way and there is more that we are able to do and will do to improve our operating performance. We continue to focus on cash flow, and we generate strong cash flow from operations. The managers, from selling our products through to receivables collection, are committed to improving operating working capital per sales dollar and cash flow generation that, in turn, will be reinvested to grow both organically and via acquisitions.

The Graham brand stands for value, value of our products, value of the support given to customers, the quality, capabilities and passion of our employees and the value of our business model. We will stay focused on our customer and in enabling our employees to be successful.

Christine, please open the line for questions.

Operator: Thank you. We will now be conducting a 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 key. One moment, please while we poll for questions.

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

Chase Jacobson: Hi, good morning.

Jim Lines: Good Morning.

Chase Jacobson: Good morning. So the first thing I wanted to ask is about the revenue push-outs. It's something that we've dealing with for a couple of quarters here, and I know it's not in your control, but can you just remind us how much of the backlog is related to those projects right now? And then, as you look forward, I know your visibility is really limited to what's in your contract and what the customer tells you, but is there a way to get more comfortable with the schedules on those? And, how do you plan for that going forward, given that this happened a couple of times now?

Jim Lines: Sure. Of the $90 million in backlog, roughly Chase, about a third are these long-lived projects, the Navy project for the carrier program and the new build nuclear projects here in the U.S. We took those orders strategically because they opened us up for entering new markets. They are challenging. I'll speak to the nuclear market first. We've been in the nuclear market in our past up through the mid-'90s so we have familiarity with the way those projects flow.

While frustrating, we are not surprised about the pace at which we're able to execute the current orders for the four reactors in the U.S. There's a lot of engineering activity that still is ongoing by the process licensor or the contractor that affects releases into fabrication; we have to wait until engineering has frozen and we're authorized to move to the next step. That has some unpredictability to it, regrettably. What we do is we stay focused on standing alongside the customer, helping them resolve these issues, being at the ready to answer technical questions. Our focus is getting back on track, getting these projects built, shipped and money collected, but to a large degree, we're at the mercy of how the engineering firm releases that work into production.

The same is true of the carrier order. Now, we're mindful to be aware that this does affect our financial performance, and it does affect our cost bases.

Chase Jacobson: Mm-hmm.

Jim Lines: And when appropriate, we go back to the customer and look for recovery of the impact of those delays on our business. However, from your vantage point and the vantage point of the investor, it can yield to some disappointment in a particular quarter when revenue was projected to be higher.

But ultimately, because these projects, in our opinion, are not at risk, it's a timing issue. We'll build these projects, we'll generate the profit and we'll collect the (delay paments) when it's necessary but it does push out several quarters, and I would say the Navy program is probably already delayed 12 to 18 months from what we thought it would execute at when we booked the order, and the large projects for the U.S. are delayed, maybe six to nine months. And then, a very nice order that we have in our backlog for new build nuclear in China, that whole project is behind schedule – not due to us – and they're not in any particular hurry for that order from us, and I would say that's going to be paced probably two or three quarters behind what we had expected. Again, we'll look for recovery of expenses that would be incurred because of that, and again, in summary, it's a timing issue, not a profitability issue with respect to the order or risk of cancellation, in our opinion.

Chase Jacobson: Okay.

Jim Lines: So, while it's frustrating and there is a different level of unpredictability within Graham's business today versus before we diversified, but that's the nature of these types of projects and this is where we want to be, this is where our brand fits perfectly, where our business model fits extraordinarily well, and we will pull value from these new markets, but it does elevate the uncertainty quarter to quarter; but not materially different but it does change our predictability.

Chase Jacobson: Okay. So, it sounds like it's something that we'll just have to deal with. But in that answer, you mentioned that you sometimes go back to the customer and look for some recoveries here. Looking at the cash flow, was any of the improvement in cash flow because of items like that, where you went back and tried to recover some of the cost?

Jeff Glajch: Chase, this is Jeff. Not at all.

Chase Jacobson: Okay.

Jeff Glajch: The cash flow was simply our operations and our improvement in working capital in the quarter, as well as obviously the impact of our earnings.

Chase Jacobson: Okay. And, just one other question, Jim, if I could. The trailing twelve month's bids that you gave is pretty impressive when you compare it to last cycle. Can you give us some idea of what that means for your bids outstanding now? And then, when you look at that 800 million to 900 million compared to last cycle, how much of that is because of entering new markets versus an increase in the core markets? And, is it a function of a larger number of projects or just larger dollar projects? Thanks.

Jim Lines: Okay, I'll do my best to answer the different questions there. The size of the pipeline compared to the $300 million or $400 million in the 2004ish timeframe – I just want to be clear to everyone that was core Graham. That is not nuclear, that is not necessarily new Navy work; that's traditional Graham. So, that was a timestamp of how we looked in—going into the last expansion cycle compared to how we see that today. So, it's up roughly 2X to 2.5X, so to us, that's been the catalyst for our underlying enthusiasm that we've had over the last several calls. If we're bidding it and the projects have some viability to them, and they appear to, it's a timing issue, and you've heard us on the last several calls be rather enthused about our pipeline.

Chase Jacobson: Mm-hmm.

Jim Lines: And, I also want to be candid – the part of that lift between $300 million or $400 million to $800 million to $900 million has to do with a step change in the cost of raw materials. Probably on a comparative basis, the cost of our product is up between 35% and 60%, depending upon metallurgy, so that's part of the lift. The rest really is our strategies to be more expansive in the markets we cover and the customers that we're accessing, and our customers as well are helping us. They look for more exotic alloys to improve the life of the equipment they're buying, elevating the cost of the equipment. But, all in all, timestamp to timestamp, we're really excited about the size of this pipeline compared to where we were sitting at the start of the last expansion cycle.

In terms of what's viable, and I'll try to answer it this way: As we think about what we consider more active and to close over the next two or three quarters, it's probably somewhere around 25% to 35% of that number. Now, I want to provide a caveat. We just closed an order yesterday and that order was supposed to close in 2008, and it was supposed to close in February of 2012. It was supposed to close in December of 2012. At five o'clock yesterday, it closed. So, we're seeing this hesitancy of our customers to make their final investment decision; however, again, the underlying demand seems to be there and it's timing, Chase.

Chase Jacobson: Okay.

Jim Lines: Hopefully, that clarifies and answers the two or three questions that you raised.

Chase Jacobson: Yes, absolutely. Thank you very much.

Jim Lines: You're welcome.

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

Jason Ursaner: Good morning.

Jim Lines: Morning.

Jason Ursaner: Just generally on the order wins last quarter, you had characterized it as a good quarter. It would have been very good if the oil sands order hadn't slid. So, just in terms of the linear progression of the business, should we be looking at it as if last quarter was really a $30 million order quarter and it's a pretty significant slowdown to 20 million in the third quarter? Or, is it the hesitancy, is it more a stable flat environment and you just haven't seen that second half pick up that maybe you had expected earlier in the year?

Jim Lines: Jason, we would characterize it as flattish with higher probability of going higher than going lower.

Jason Ursaner: Okay. And by market in the prepared remarks, or the press release, mentioned the chem/petrochem market, it only accounted for $2.5 million of orders. Not sure how much of that was domestic, but just in general, how should we look at that number versus some of the commentary you guys had been making on this renaissance of U.S. production with low cost natural gas feed stock?

Jim Lines: Sure. I'll share with you how we're looking at it. We're looking at it very bullishly. We do believe that the North American petrochem renaissance as traction. We've looked at the various projects that are available and I could share with you that there's probably 12 to 18 projects at varying stages, and I don't believe all of them will go ahead. But, we're actively bidding, we're actively in conversations with at least half of those projects. Some have not moved to the point of being bid yet. The projects that seem to be pacing faster than the—than others is the ammonia urea; the fertilizer market seems to be moving more quickly than the classic petrochem, ethylene and other petrochemical processes.

So, we are expecting to see some projects come forward and be closed over the next two to three quarters that are in the fertilizer market, and we expect to see maybe one or two petrochem projects close as well. We don't think it gets hot and very active for another six to 18 months. But what's important is, in our conversations with the end user or the process licensor or the EPC, projects seem real, they have an earnest pace to them and it's coming. So, we think about it very bullishly. We think about it as part of our growth strategy and what's also desirable is it's on our home court.

Jason Ursaner: Mm-hmm.

Jim Lines: North America, and we didn't have that activity last cycle. So we're pretty excited by it. We think it's real. We still think it's a few quarters away. Are there derailers? Possibly. But, we think there will be a good amount of working coming, and we plan to capitalize on it, Jason.

Jason Ursaner: Okay. And then, I want to jump to SG&A for a second. One of the key messages from the cycle point slide had been that you're investing in the middle of the Company ahead of revenue to be in a position to take advantage of these opportunities, and I think last quarter you guys had mentioned anticipating being closer to the $5 million range. Obviously, there's a variable component that's tied to commissions and revenue; you didn't come in quite where expected. But directionally, how should we be thinking about this quarter's SG&A, after the adjustment versus that $5 million figure? And, is there any delay on the investments you're making internally to the long-term platform just given what you're seeing in the market?

Jeff Glajch: Jason, I think the $5 million SG&A may have been a question the last quarter, and our expectation was being at that $5 million level was probably a little high. We didn't expect to be at that $5 million level so there may have been a little miscommunication there. But no, our expectation—and I think if you look at this quarter for SG&A, it's in line with where we're at. I would think as we go forward, we've kind of targeted, in general, have a 15ish, maybe a little higher than that SG&A range as a percent of sales, and I think that's a good way to look at it. So, if you're targeting a sales level, 15% to 16% perhaps of SG&A going forward is probably a good number and that certainly, would we get to the $5 million? I think we would but you'd have to kind of get to the math where you'd be seeing revenue numbers in the lower $30 millions to be consistently at the $5 million SG&A level.

Jason Ursaner: Okay. And, just the last question on the Energy Steel adjustment, just want to make sure I understand the convert. So, you mentioned the total price was $18.5 million and that you paid an average of 5.5x times EBITDA, so if the first year was achieved though, I guess that would have made it, at worst almost, 4.5x so does that need to be running closer to 7x times on the current year to average out? I mean, is that the right way to interpret that comment?

Jeff Glajch: Jason, a couple of things. First off, the first year was achieved. I'm not sure I'd necessarily characterize it at 4.5x. Again, the threshold was $4 million, and we achieved that $4 million. And the second year was not achieved so, by deduction, it would be lower than the first year. This is based on the calendar years, which is different than the fiscal years, and the first quarter of this calendar—this past calendar year, which was the last quarter of last fiscal year, we expect to do better in this current quarter, so on a fiscal year basis, I think characterizing the acquisition at 7x times EBITDA would probably be too high a number. Again, there's a little bit of a conflict between fiscal year and calendar year here, but I think if you were looking on a fiscal year basis, I think ranging between 5x and 6x for both of the years would be a fair way to characterize it, kind of where we're at. So yes, there was a drop calendar year-over-calendar year but a fiscal year-over-fiscal year drop isn't quite as significant as the calendar year-over-calendar year drop was. It's just timing.

Jason Ursaner: Okay. Appreciate the commentary. Thanks, guys.

Jeff Glajch: Sure.

Operator: Our next question comes from the line of Joe Bess with ROTH Capital Partners. Please proceed with your question.

Joe Bess: Good morning.

Jim Lines: Hi, Joe.

Joe Bess: I was hoping to go back and talk a little bit more about the bids outstanding that you guys have. Taken at its midpoint of $850 million, did you say—just for clarifying, did you say that you're expecting about $212 million of that to be awarded in the next three quarters?

Jim Lines: That would be correct. That's at 25% to 35%.

Joe Bess: Okay, then with you guys taking a percentage of that and then as well as your competitors, right?

Jim Lines: Right. And then I'd provided the caveat of that example of the order we won yesterday, we thought it was going to close several quarters ago and then we thought it would close each quarter between now and back several quarters, so things do move to the right. But basically, from our judgment, our sales management judgment, we've identified, that order of magnitude is planned to close in that timeframe. Do I expect it all will close? No. Do I expect some we don't have on the radar screen to come in? Yes. And, of course, as you said, we will not get it all.

Joe Bess: Okay. And then can you talk about what percentage of that would you say is your core competency? And then, also compare what you're—what you guys typically are viewing as your win rate versus order was back in 2004?

Jim Lines: Sure. The number that we've given you and the two timestamps that we've show, the $300 million to $400 million in the 2004 timeframe or $800 million to $900 million of core-type Graham business or bids today, if we look at our historical—this would be a raw capture rate, so it might be different to what you would ordinarily hear from us as a real capture rate, but we do track our raw capture rate. And depending upon where we are in an economic cycle, historically, our business has converted about one in 10.

Joe Bess: Okay, that's what I was…

Jim Lines: To…

Joe Bess: That's what I was thinking.

Jim Lines: One in six, somewhere around one in eight on, as a median.

Joe Bess: Okay. That's what I was anticipating. And then, when you compare that to the last cycle and compare that to this cycle where you're in new markets, are you anticipating this number to kind of come down because you're kind of penetrating new markets that you don't have much history in?

Jim Lines: Well, that's a great question. My judgment on that would be I don't expect our capture rate to materially become different. What could potentially occur is the margin potential is different, and we've talked about that. We've got…

Joe Bess: Right, right. Okay, yes. And then, are you able to give a little bit of color on this $212 million that you're expecting, how it kind of breaks down in terms of industry?

Jim Lines: Sure. Sure, these are rough numbers. 40% of that is from the refining market. About another 35% of it is from our petrochem, which includes ethylene, ammonia, urea and other petrochemical projects; and then maybe 15ish% is power; and the remainder comes from the host of other markets we serve.

Joe Bess: Okay. That's really helpful, thank you. And then, just thinking about the orders that have been delayed, were these shipments that you're expecting to hit in fiscal '14? And, is this being pushed out into what you would think looks like fiscal '15?

Jim Lines: We're talking primarily about two or three projects that are very long life projects. The carrier order from first revenue to last revenue is three to three and a half years. It's now going to be more like four, four and a half years because of these delays. And then, for the large orders secured at Energy Steel for new nuclear plants, the revenue cycle on those projects were projected to be between two and two and a half years and it's probably going to be between two and a half to three and a half years.

Joe Bess: Okay. Okay, that's helpful. Thank you.

Jim Lines: You're welcome.

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

Joe Mondillo: Hi, good morning, guys.

Jeff Glajch: Morning, Joe.

Jim Lines: Good morning, Joe.

Joe Mondillo: Just to sort of follow up on the sort of trailing twelve month bids, could you give us an idea on how that's trended over the last several quarters? Has that trailing twelve months ramped up from a $500 million number, or how is that trending?

Jim Lines: No, it's actually been at that level for much of the last several quarters, when you've heard the enthusiasm from us about our pipeline.

Joe Mondillo: Okay.

Jim Lines: It's been elevated for about a year.

Joe Mondillo: Okay. And so, has that translated into any gross margin expansion in the orders? Or is it still, since these bids aren't being translated yet, is the gross margin and the pricing still stable at the moment?

Jim Lines: I think it's the latter. It's not a strong enough buying environment yet to get the margin lift we customarily expect as our markets improved. It's gotten better but it's not where we expect it to go one or two years forward.

Joe Mondillo: Okay. And, your oil refining orders continue to ramp up pretty strong, up 40% sequentially. Where is that coming from exactly, geographically?

Jim Lines: Sure. If we look at the third quarter orders, refining segment in particular, there was a very large order for oil sands. We also secured some orders for the U.S. refining market, and from Latin America and from China. So the original markets, with the exception of oil sands is beginning to become active.

Joe Mondillo: So, a majority in North America but also demand elsewhere?

Jim Lines: Right.

Joe Mondillo: Okay. And so, in terms of the petrochem market, it sounds like—I mean, you're giving an awful big range, sort of six to 18 months. It sounds like you have a ton of projects out there that are sort of bidding, in the process of bidding and engineering. Is it just a case in point where, you really don't know when it's going to happen and it could essentially happen in three to six months, you're just not positive, and we could see a flood of orders at some point? Is that possible?

Jim Lines: Yes, I think the range—it's just from our experience of how the early stages of recovery ramps up. There are some front leaders that try to get to market first, and as I said earlier, we think that's the fertilizer market within the petrochemical umbrella. The ethylene projects, because of their complexity and their enormity, seem to be moving a little bit slower, along with the propane dehydrogenation projects. But, it's just our judgment. We don't think it's going to get white hot right away, and we would think it becomes more exciting and much more active within that window that we've just described.

Now having said that, it could be month seven from now, but our adjustment is the six to 18 months based on our experience and based on our view of where these projects are and the usual way Graham projects these types of things. We're not overly aggressive. I think we're balanced in our approach and you're hearing from us the usual balance of how we view these opportunities.

Joe Mondillo: And when you talk about the six to 18 months, is that orders?

Jim Lines: I'm sorry, Joe. That would be orders and the revenue cycle would be 12 months after that.

Joe Mondillo: Okay, no problem. And so, looking at that $9 million petrochem backlog, do you sort of think that's sort of the bottom here and maybe we hang out around there for a quarter or two?

Jim Lines: I think it could decline over one or two quarters but then we'll begin to expand as we get into that six to 18-month window.

Joe Mondillo: Okay. And then just lastly, the revenue delays that got pushed out, could you quantify how much got pushed into 2014?

Jim Lines: I would say it was about 10% of the quarter's sales, a little bit above that.

Joe Mondillo: Okay. Great. Thanks a lot.

Jim Lines: You're welcome.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question, press star, one on your telephone keypad. If you are using a speakerphone, you may need to pick up your handset before you press the star keys. One moment, please, while we re-poll for any additional questions.

Thank you. Our next question comes from the line of Brian Rafn with Morgan Dempsey. Please proceed with your question.

Brian Rafn: Good morning, guys.

Jim Lines: Hi, Brian.

Brian Rafn: I missed Jim, your very opening comments. You talk about hesitancy. Are you seeing the volume of bid quote activity, what's kind of the delta change there? Has it expanded? Is it about the same the last 12 to 18 months? Are you seeing any acceleration in just purely bids and quotes?

Jim Lines: The dollar value of the bids on a trailing twelve month basis has been relatively flat straddling that $800 million to $900 million range for about the last year, but I would say it's ramped up fairly steadily. If you go back 12 months and earlier, it's ramped up from that timeframe. So, three years ago to one year ago, it's begun to show some expansion.

Brian Rafn: Okay. When you look at that bid quote activity, Jim, talk a little bit about maybe the competitive environment, the numbers of competitors on each project bid. And then your sense, has there been any surrender of margin? Do you see customers being a little more aggressive on margin or pricing? Or, has it been about the same? Give me a sense of what kind of the competitive bidding environment is.

Jim Lines: Sure. It's fair to give this a timeframe. We're seeing the margin environment improve from where it was one to two years ago. We're not seeing it as healthy as it was in 2007 and 2008, nor did we expect it to be that healthy just yet, but directionally, it is improving. What we do see from a competitive perspective, Brian, is this comes down to the pace at which these purchase decisions are being made. When they're scant or very few, it tends to be more hyper-competitive. I think we're still in that highly competitive environment now, where there is some favor on the buyer's side, but as we move into that six to 18 months timeframe we spoke about earlier and more projects are teed up to be awarded, I expect – as we've seen in the past during that type of situation – margins become better.

Brian Rafn: Okay. What—if you were to kind of detail a little bit, on any one specific bid quote – and maybe it varies by your different end markets – how many competitors are you seeing bid these projects?

Jim Lines: Sure. A general rule of thumb—and I know you're focused on the Navy a lot but we put that aside for a second. In our core markets, refining and petrochem, there generally are corporate policies either at the EPC or the end user that there must three competitive bids, so it's not uncommon to see three, Graham plus two. When we go into certain Asian EPC situations, there might be five or six, and when we go into certain highly specialized situations where we're very differentiated and we have leading technology, it might be just us or one other. So, it does vary but I would say, in general, when we look at an opportunity, we tend to think of Graham plus two.

Brian Rafn: Okay. Okay, that's fair. Are you guys seeing maybe over the last six to 12 months any changes in your commodity feed stocks, metals, et cetera?

Jim Lines: The answer is yes. We've seen a bit of a pullback, a favorable pullback with a reduction in pricing over the last two or three months. Now, we don't think that's long-lived. We think as the markets become active and demand begins to pick up, those commodities – carbon steel, copper-bearing alloys, nickel-bearing alloys – should begin to become more expensive. Now having said that, Brian, we don't anticipate that leads to margin erosion. We tend to—our supply chain and our people developing the bids do well to keep our costs current, so we don't typically have margin erosion as commodities increase.

Brian Rafn: Given that, Jim, do you guys look to buy forward at all in any of these feed stocks, store some steel out of the yard? Or, are you, given that there's some pullback in price?

Jeff Glajch: No, we do not. We try to lock down our material cost at the time we secure an order. We don't do any kind of hedging around our raw materials, nor do we try to speculate on whether something's going up or down. When we bid on projects, our price validity's got a fairly tight timeframe and our intent is really to match what we bid and not to speculate in the materials market at all.

Brian Rafn: Yes, what—if you put a number, Jeff, on that pullback, what might you be in some of the carbon steels and nickel-bearing that… are you down 10%, 20%, 15%, 5%? What…

Jim Lines: Sure. We just went through an update on that, so I'm current. We've seen a pullback on our pressure vessel carbon steel of on the order of 5%—between 5% and 10%.

Brian Rafn: Okay. Okay.

Jim Lines: So, that can vary whether it's from distribution or from the mill directly.

Brian Rafn: Right.

Jim Lines: But the blend is that order of magnitude.

Brian Rafn: Okay. Anything—will you—as you guys talked about the ramp up to almost 200 million in sales, the potential, have you done any incremental hiring, SG&A, engineers, big plant guys within the last, say, quarter or two?

Jim Lines: Sure, yes. We're still building for the surge of work that we anticipate is coming, Brian. We've added into the operations area with direct labor. We've picked a point of where we want to exit this fiscal year at, and we've picked a point where we want to exit fiscal 2014 at from a direct labor standpoint and from an indirect standpoint to support where we see the growth going in out years. So, we are still building—now, we're being measured on that; we're not getting too far ahead of ourselves to affect profitability near term meaningfully, but we are investing for our growth.

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

Joe Mondillo: Hey, guys, I just had two follow-up questions. The first one, could you just talk about the breakout, or the breakdown of the bidding activity compared to the order activity that you're seeing right now? Is there any difference?

Jim Lines: In terms of, Joe, end user markets or geographic markets?

Joe Mondillo: End markets.

Jim Lines: No, not really, with the exception of we're expecting in, again, that six to 18 months out to begin to see growth in the petrochemical bookings and growth in our backlog aligned with the petrochemicals market.

Joe Mondillo: Right, so the petrochem, as a percent of your total orders, is quite small now. Is it larger percent in terms of the bidding activity? Are we at the early stages of these projects and are more petrochem sort of bidding activity coming around to figure out what their costs are on these projects that may be coming down the line 18 to 24 months? Or, is it still pretty early and is it quite, in fact, very similar to the order activity?

Operator: Ladies and gentlemen, please stand by. Your event will resume momentarily.

Ladies and gentlemen, please continue to hold. Your conference will resume momentarily.

You may resume.

Deborah Pawlowski: Hello? Operator, are you there?

Operator: Yes. You are reconnected.

Jim Lines: Okay. Sorry, we had some technical issues. The question, Joe, that you had raised – and hopefully you're still on the line – the answer is the award activity for petrochemicals is down in comparison to the bidding activity and the future award activity that we would anticipate.

Joe Mondillo: Okay. Am I still on the line?

Jim Lines: Yes.

Deborah Pawlowski: Yes, we can hear you.

Joe Mondillo: Okay. So, the bidding activity of petrochem is similar as a total compared to what the order trends are looking like?

Jim Lines: yes, I guess. It's sort of aligned but I think the pipeline's beginning to expand.

Joe Mondillo: Okay.

Jim Lines: In relation to the percentage of our quarterly bookings at our two petrochem.

Joe Mondillo: Okay. And then, I just wanted to clarify sort of the bid-to-quote activity and your win rate. You mentioned earlier in the call, or the Q&A that your—on average, it's between one in six versus—and one in 12—or 10 so around one in eight, but then you were talking—on the last gentleman's question, you were referring to on most projects, there's three bidders. So that would then say to me that it's sort of one in three, so just clarify that for me.

Jim Lines: Sure. There are three bidders, however, going into most projects, I think we are the lead bidder and we secure a fair percentage of—it's not one third, one third, one third in terms of the real capture rate. We tend to capture more than one third of the opportunities at close.

Joe Mondillo: Okay, so that 25% to 30% awarded over the next three quarters, it should essentially—we should essentially look at that as that you could potentially acquire up to 30 to 40%?

Jim Lines: You could think about it that way, but again, we had the caveat that not all projects go ahead.

Joe Mondillo: Right.

Jim Lines: They push to the right. But, that's also balanced by some projects that we don't have on the radar screen that come very quickly and that get closed in the quarter. But, I think you're generally thinking about it fairly.

Joe Mondillo: Okay, great. Thanks a lot.

Deborah Pawlowski: Operator, we have time for one more question.

Operator: Our final question is a follow-up question from Brian Rafn of Morgan Dempsey. Please proceed with your question.

Brian Rafn: Thanks, Jim. I had to get a Navy question in. You've heard certainly the talk about sequestration and that and some of the issues with Chuck Hagel as Sec Def. Has that at all impacted the CVN-79 John F. Kennedy or the Virginia Fast Attack Sub programs?

Jim Lines: We can't identify where it's affected the CVN-79 as it would relate to Graham because we've materially secured what we were going after. There are a couple of smaller projects coming up that we'll potentially bid on. With regard to the Virginia program and the bidding activity, my response to that was we've seen some formal bids where there's been requests for us to extend our bid validity two or three times. So therefore, yes, we're seeing some effect in postponing purchase decisions tied to that.

Brian Rafn: Okay. And then, on the fleet ballistic next generation beyond the Ohio-class sub, anything on the boomer subs next generation?

Jim Lines: No, on that, we're in the second stage of detailed engineering. The first prototype awards are not expected to be until sometime in calendar 2014 or early 2015.

Brian Rafn: Okay. Thanks, guys.

Jim Lines: You're welcome.

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

Jim Lines: Thank you, Christine, and thank you, everyone, for your time this morning. Again, we appreciate your questions and the detail with which we went over the outlook through your questioning. As you can appreciate, we're very enthused about where we're going, about the strategy that we've developed to grow Graham. We've set our target to double the size of Graham across this current cycle through both focusing on organic expansion and deploying our capital for strategic acquisitions, and we look forward to updating you on future conference calls. Thank you.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

END