Operator: Greetings and welcome to the Graham Corporation Third Quarter Fiscal Year 2014 Financial Results Conference Call. At this time all participants are in a listen-only mode. A 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.

I would now like to turn the conference over to your host, Ms. Karen Howard, Investor Relations for Graham Corporation. Thank you, ma'am, you may now begin.

Karen Howard: Thank you, Jessie, and good morning, everyone. We appreciate your participation in our third quarter fiscal 2014 financial results conference call. You should have a copy of the news detailing Graham's results that was released earlier this morning. We also have slides associated with the commentary that we're doing here today. If you do not have the release or the slides, you can find them at the company's website at www.graham-mfg.com

On the call with me today, we have James Lines, our President and CEO and Jeffrey Glajch, our CFO. Jim and Jeff will review the results for the quarter as well as our outlook. And then we will open up the lines for Q&A.

As you are 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 is 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 on our website or at www.sec.gov.

And with that, I'm going to turn the call over to Jim to begin. Jim?

Jim Lines: Thank you, Karen, and good morning, everyone. My introductory remarks will begin on slide three. Our planning and specific actions taken during the past couple of years were to ready the company to double revenue across this current strengthening expansion cycle.

Investments in people, in equipment, including welding and machining equipment, investments in IT and expanding our facilities provide the necessary foundation upon which we will grow and serve the strong demand we anticipate from our markets.

The key macro-economic trends that we're watching support our belief that we can double our business. They include: global population growth, increasing urbanization along with increased levels of income in the emerging and developing economies and corresponding moves toward consumerism, and a focus on reducing the environmental impact of the facilities where our equipment goes.

These together cause an increase in energy demand, including increases in chemical and petrochemical products. Additionally, requirements for feed and fertilizer products will increase. All of this correlates into increased long-term demand for our products.

We supplement those megatrends with recent reports that have come out from ExxonMobil with their 2014 outlook for energy, OPEC's World Oil Outlook, the American Chemistry Council's report related to the U.S. petrochem expansion, along with, and most importantly, the size of our own pipeline. All of these support our planning and our basis to double our business across this cycle. We will remain focused on engineered-to-order products serving the energy markets.

Moving on to slide four. Highlights for the third quarter include backlog at quarter end just under $115 million. This represents the diversification strategies and the success that we've had moving into new markets and acquiring new customers. An important point to note, of the $115 million of backlog, approximately $70 million to $75 million of that relates to the customer segments we had last cycle. The remainder is from our market and customer expansion strategies.

Cash and cash equivalents and investments increased $9 million across the quarter to just under $64 million. This was primarily due to the timing of accounts receivable collection. Revenue in the third quarter was $23.4 million. This was in line with our expectations and reflects the order levels last year. Net income in the quarter was $1.4 million or $0.14 per share. Comparing this to the prior period after adjusting for a non-recurring item, income last year was $2.1 million or $0.21 per share. We are confirming our fiscal 2014 guidance, and we are not changing our top line outlook for fiscal 2015.

Moving on to slide five. Sales in the third quarter of 2014, as I mentioned, were $23.4 million. Revenue reflects prior order levels three quarters to six quarters earlier. If we look at the order rates in fiscal 2013, they averaged $24 million a quarter and that, of course, closely corresponds to the sales level that we saw in this most recent quarter. We do anticipate bouncing off this bottom as we move forward from here.

Sales in the quarter were nicely diversified across our key markets of refining, chem, petrochem, power, our naval market and other commercial markets.

The U.S. market remains very strong. That's, of course, due to our sales into the nuclear utilities, U.S. petrochem and our naval markets. U.S. sales represented 62% of total sales. The Canadian market, at 17% of sales in the quarter, was primarily impacted by backlog conversion of orders we have for oil sands projects in Alberta.

An important point to make as we think about the diversification strategies that have been executed very well is of the fiscal year-to-date revenue -- roughly 25% is from markets and/or customers who we were not serving or we did not have last cycle.

With that, I wish to turn it over to Jeff. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. We're on slide seven now. As Jim mentioned, Q3 sales were $23.4 million, down 9% compared with $25.6 million in last year's third quarter. The geographic split of sales was 62% domestic, 38% international. This compares with last year's third quarter which was 45% domestic and 55% international.

Gross margins in the quarter were down 180 basis points to 26%. EBITDA margin was nearly 11% for Q3, down from 17% last year. Q3's net income and EPS were $1.4 million and $0.14 per share respectively, compared with $3 million and $0.30 per share last year. However, if you recall, last year we had a one-time earn-out benefit related to the Energy Steel acquisition which added $975,000 to net income in the third quarter of fiscal 2013. Excluding that benefit, last year's net income and EPS were $2.1 million and $0.21 per share respectively.

On slide eight, year-to-date sales were $76.1 million, up 3% from $74.1 million in the first nine months of last year. Year-to-date sales are 57% domestic and 43% international. Gross profit has increased 15% to $24.4 million, and gross margin is 32% compared with 28.7% last year. The 330 basis point gain in gross margin was favorably impacted by year-to-date sales as well as improved product mix.

SG&A was $13 million in the first nine months of this year, up only 2% compared with the first nine months of last year when you adjust out the previously mentioned earn-out benefit. EBITDA margin increased by 220 basis points to 17.2% in the first nine months of fiscal 2014, primarily driven by the increase in gross profit margin.

Net income has increased 29% to $7.8 million when you compare it to the adjusted basis of $6.1 million last year. EPS is $0.78 compared with $0.61 on that same basis.

On slide nine, as Jim mentioned, our cash position is $63.9 million, up $9 million in the third quarter and $12.2 million year-to-date. I do want to caution that the strong Q3 increase in cash flow is primarily timing of working capital and also the fact that, to-date, we have spent only a small portion of the capital for the expansion project that we discussed in October. As I mentioned during the October call, when we had approximately $55 million of cash, we expected to fund the capital expansion here in Batavia with operating cash flow that would be generated over the next few quarters and that our cash position, once the project is complete, would be at a similar level to then, or $55 million. We believe that will still be our cash position once we are done with the capital project this coming summer. To note, we have only spent $2.1 million of our projected $6 million to $7 million of capital for this year, so there will be a large step up in capital spending in the fourth quarter.

We continue to have a strong balance sheet with no bank debt. This will allow us to continue to utilize our cash for both internal and external growth opportunities, to invest in our current business as well as acquisition possibilities.

With that, I'd like to pass it back to Jim, who'll complete our presentation and comment on our view for the rest of fiscal 2014. Thank you.

Jim Lines: Thank you, Jeff. I am now on slide 11. New orders in the third quarter were $23.5 million. It's not unusual to have variation or volatility of orders quarter-to-quarter due to the timing of projects converting in our bid pipeline, along with the size of potential orders that we may win in a given quarter.

We tend to look at our trailing 12-month booking level as a better representation of the market health. If you think about our trailing 12-month orders, they amount to $32.5 million per quarter average order rate. If we think about the first three quarters of fiscal 2014, the average is $35 million per quarter. Therefore, while the third quarter was off a bit at $23.5 million, we would attribute that to the timing of the pipeline, the next set of projects moving in the pipeline to place orders. We still remain very positive about our bid pipeline.

And as we think about the diversity of orders that came in, a strong order level came from the chemical/petrochemical sector at 47% of total orders. Looking more narrowly at the U.S. petrochem sector, about 30% of the total orders in the quarter were attributed to the U.S. petrochem expansion cycle.

The power sector, including nuclear and renewable energies, made up 29% of orders; 13% were refining; and the remainder from our other markets. A high percentage of the orders came from the

U.S. markets, principally because of the strength of the U.S. petrochem market and, of course, most of our nuclear sales and all of our naval sales are to the U.S. customer base.

Our bid pipeline remains elevated and strong at a level that's between $800 million to $1 billion, which is more than double the aggregate value of our pipeline at the start of the last cycle in the fiscal 2004/ fiscal 2005 timeframe. There are a number of bids that we've made for North American petrochemical markets, the global refining markets and for the power sector.

Moving onto slide 12, this is a very important slide as we think about where the business is going compared with where we are right now. At just under $115 million of backlog, 40% of that is from markets and/or customers we didn't have in the last cycle. These new markets and/or customers include primarily the power market, including nuclear, and the work we're doing for the naval programs and of course new customer acquisitions from our traditional markets. So, we're very pleased with the direction of our diversification of future sales and the strength of our backlog.

Also importantly, our backlog is more extended than it had been, giving us better visibility in out years beyond fiscal 2015 into 2016 and into 2017. The $114.6 million backlog that we have, which is dispersed fairly evenly across our key markets of refining, chem/petrochemical, power, naval and other markets, approximately 70% to 75% of the backlog converts within the next 12 months, another 15% to 20% will convert 12 months to 24 months out from now with remainder beyond two years from now. It's a stark change from where our business was four years or five years back.

Moving onto slide 13, as we said earlier, we have confirmed our fiscal 2014 guidance; it remains unchanged. Revenue is expected to be within the range of $100 million to $110 million, gross margin for the full year between 31% and 33%, SG&A as a percent of sales between 16% and 17% with an effective tax rate of 33% to 34%. Also, we have not changed our revenue expectation for the coming fiscal year, fiscal 2015.

With that, Jessie, please open the line for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, at this time, we will 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. Thank you. Our first question is coming from the line of Jason Ursaner with CJS Securities. Please proceed with your question.

Jason Ursaner: Good morning.

Jim Lines: Good morning, Jason.

Jeff Glajch: Good morning.

Jason Ursaner: First, I had a couple of questions on the gross margin of 26%. I was wondering if maybe you could walk through some of the various puts and takes there. How should we be balancing factory absorption versus, that fact that these were all legacy orders that were written to lower margin, and then maybe some of the short order work you had in the first half?

Jim Lines: From a quality of orders perspective, the pricing of the orders was fairly similar. I would attribute most of the gross margin decline to the utilization or the absorption of our fixed overheads. So, pricing is relatively consistent with prior quarters and reflects the revenue level of corresponding absorption that pulled down the gross margin. Short cycle sales have held fairly constant as have their margins. So I would attribute the pull back in gross margin to utilization.

Jason Ursaner: Okay. And just looking out towards next quarter and next year, my perception is that the projects in backlog should be written to modestly higher gross margins, just given the improving pricing environment. And you've talked about, because of the delivery schedule compression, you have utilized some outsourced manufacturing. Do you have a better sense at this point for the impact that is going to have on gross margin for those deliveries, relative to the fact that they should have been written to a better margin to start with?

Jim Lines: We haven't come out with margin projection or guidance for fiscal 2015. It's still a bit early for that. From a qualitative or quantitative perspective, the orders being added into backlog over the last couple quarters have generally been consistent with the pricing or anticipated gross margin.

We have talked about a couple of event scenarios or situations where we did have some competitive pressure from international competition or international customers for the U.S. petrochem market. That did have an effect on a couple of projects, with lower pricing than we were anticipating because of that competitive pressure. But when you look at it on average, blending all the orders together, I think the average gross margin is consistent and fine as we move forward. But we'll come out with a gross margin expectation for 2015 in our May-early June conference call.

Jason Ursaner: Okay. And then a significant portion of the order activity is obviously being driven by the U.S. petrochem market. And a lot of those projects seem to be predicated on low natural gas prices for the foreseeable future. As you see natural gas prices rising pretty substantially this winter, how does that impact any confidence you have in the pipeline of projects you see coming forward?

Jim Lines: At this point, Jason, we haven't seen it change the attitude of our customers. I think it becomes potentially a greater concern if it moves north of $5 per million BTU and stays north of $5 per million BTU. At this point, the projections are not for that to occur. And, also, it relates to the differential between the comparable energy input from crude oil versus natural gas.

All in all, we remain very optimistic even though natural gas has crept up a little bit. We don't think it's at a point where it put these projects at risk. And we haven't seen an attitude change from our customers about the viability of the projects that we've been bidding.

Jason Ursaner: Okay. And just maybe one last question for me. Can you give any update on the submarine program for the U.S. Navy? I know you can't always discuss all aspects of it, but maybe if there is anything you can talk about there?

Jim Lines: We do have and we have communicated that we have a strategy to expand our offering to the U.S. Naval Nuclear Propulsion Program, including both surface ships and submarine programs. I feel that our strategy is being executed very well. And we will become, over time, a supplier to the submarine programs. There's very little we can say about that at this point in time, other than I can say I'm pleased with our strategy and execution of our strategy and I expect that we will, over a period of time, realize that strategy.

Jason Ursaner: Okay, great. Appreciate all the commentary. I'll jump back in the queue. Thanks.

Jim Lines: You're welcome. Thank you.

Operator: Thank you. Our next question is coming 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: I want to follow-up on Jason's question about the chemical market. I know the customers obviously look a lot longer-term than just what the spot price of gas is doing. But have you seen, over the last month-and-a-half or so, any change in pace of how they're moving forward with those projects? Are they slowing it down a little bit or anything like that?

Jim Lines: That's hard to discern. What we did see was that the initial movers got to the market first with placing the orders for long lead-time equipment, which is our type of equipment. And we saw a flurry of activity starting in June through the September ending quarter. It's not unusual that there would be a stacking up of the next coming projects that take a month or a few quarters to get set up. So we weren't surprised that we saw a flurry of first movers, and now we're looking at the positioning of the next projects. And I still anticipate that they will be coming. Nothing is being advised to us by our customers that the dynamics have changed, that the pace has changed. We just haven't seen that yet.

To the contrary, we have had some discussions, and this is more anecdotal, but is perhaps directly to the question that you're asking, we have had some commentary with some customers that haven't placed orders for our equipment yet that will reflect accelerated schedules. They are behind and want to get our equipment or our type of equipment on order and then it will be a very aggressive push to meet a shortened schedule. So that's encouraging and, again, that's indicative of suggesting there isn't a change at this point in time in the pace of this activity. We would attribute it more to the staging of the waves of projects.

Chase Jacobson: Got it. Okay. That's helpful. And can you talk about China a little bit; that's obviously been a really good market for Graham. But I think there is some slowdown in some of the quoting and bidding activity. Can you just talk about what's going on there?

Jim Lines: Sure. Sure, that's a great question and something we've been experiencing over the last 12 months to 18 months. While the bidding activity hasn't really slowed down, stepping to the plate and placing orders by our Chinese customers in the refining sector had been difficult to predict and still is difficult to predict. We do see a few projects, a handful of projects, that seem to be moving along over the next six months to placing orders.

Having said that, I would have said the same thing six months or nine months ago, so those projects are still active, they're still moving along. But we did see a pullback in new refining infrastructure investment the last 12 months to 18 months. The projects are viable to us. They appear viable, they're going to materialize. They seem to be more real now as we move into calendar 2014.

But again our optimism that I'm conveying to you here, I probably would have conveyed the same comments six months ago or nine months ago. China is hard to predict. When they're ready to place an order, it happens in five days to ten days. Prior to that, there's a lot of activity bidding. So I can't say our bidding activity has changed. It's that last five days' or ten days' race into a PO that seems to be stalled.

Chase Jacobson: Okay. And just one more question. Jeff, you commented a little bit on the cash flow, clearly very strong this quarter. That was better than you expected because I think you said that you expected cash relatively flat sequentially. I noticed there were some good customer deposits this quarter, despite the lower awards. So just any color you can give around the cash flow and if there's something that changed versus your expectations?

Jeff Glajch: Chase, if I look at the expectations over a multi-quarter period, so over two or three quarters, really nothing has changed. It was really the timing of some of our receivables, the timing of some customer deposits, but nothing dramatic changed. My commentary last quarter which was when we were at around $55 million and I believe I had the question or maybe I proactively mentioned that while we have this large capital project, we felt like we were going to fund it with our cash flow, operating cash flow. It's still what we believe.

Basically what happened is we just had a strong cash inflow in this particular quarter; some of it will reverse itself normally in the next quarter, anyways. But then on top of that we'll have the addition of the higher level of capital spending over the next quarter or two. So it is really just timing of working capital, nothing beyond that.

Chase Jacobson: Okay. I appreciate the help, guys. Thanks.

Jim Lines: You're welcome.

Operator: Thank you. The next question is coming from the line of Richard Ryan with Dougherty & Co. Please proceed with your question.

Dick Ryan: Thanks. Jim, could you talk a little bit about what you're seeing on the nuclear power side?

Jim Lines: We are seeing bidding activity begin to pick up. Admittedly, we had seen some pullback following Fukushima, and as the utilities adjusted to the outlook with respect to combined cycle power plants driven by natural gas. But we are now seeing more bidding activity; we're seeing the effect of the Fukushima regulations around safety parameters get into the RFQs, request for quotes. So we're seeing improvement as a whole. And we are seeing orders released hopefully at a stronger pace than we had experienced the last 15 months to 18 months. So I do think we're bouncing off of what I would characterize as a trough that was attributable to Fukushima and adjusting to the natural gas market.

Dick Ryan: Is that primarily domestic? Or are you thinking of international?

Jim Lines: That's primarily domestic.

Dick Ryan: Okay.

Jim Lines: Those are primarily domestic. We have begun to begin to bid the next four reactor projects for China, and they're probably out over the next one year to two years' worth of opportunities. So the next wave of Chinese nuclear reactors is starting to be bid, and there will be opportunity, we believe, for us there. But my comments earlier really were centered around the U.S. market.

Dick Ryan: Can you give a sense of the kind of contracts that are in the RFQs when you look at what these utilities are looking at for Fukushima compliance? I mean, what order of magnitude can these contracts be in?

Jim Lines: I would expect the average order price – for the projects that our team has a line of sight to, which we're talking about every week, they vary between $0.25 million and maybe $2 million. And they're heat transfer equipment, they're pumping systems and they're structural members, so right in the wheelhouse of our Lapeer team. And we have a number of bids in those areas. So, the average order price is that relative magnitude of $0.25 million to a large one might be $2 million.

Dick Ryan: Okay. And in your backlog, have you seen any push-outs or cancellations? I know you gave a pretty good description of the order activity and of timing. But is anything soured in the backlog at all?

Jim Lines: No, I would say nothing. Certainly nothing has soured that we are aware of. The backlog is of a high quality and we expect it to be converted. Timelines aren't generally pushing out other than the ordinary expected push-outs that we have communicated over the last couple quarters. With that big surge of work that we saw commencing in June through September, we did feel that would have a tendency to move to the right, calendar-wise, because of execution constraints within the supply chain, whether they'd be the EPC or the end user or perhaps even ourselves. But so far, I don't think we're driving that. So we haven't seen anything extraordinary other than what we anticipate such as moving around a backlog conversion tied to an execution schedule, that's out of our control. The project viability or project risk required in the backlog from our perspective has not changed.

Dick Ryan: Okay. Good. So, Jeff, you talked about the next cycle peak and I think you've indicated gross margins in that mid to upper 30% range. Can you give us some color on what you might think on the operating margin side?

Jeff Glajch: Sure, Dick. We've talked about SG&A going forward was probably going to be somewhere in the mid-teens or so, as a percent of sales. And so obviously, we take that off of the gross margin number, you would look to have pre-tax margins pushing up in the high teens to very low 20%s. So I think that hasn't changed. And certainly as we grow, there will be the need to add additional SG&A but at the same time, it probably won't grow quite at the rate that the top line will grow. So you should see a little bit of improvement there from where we are currently.

Dick Ryan: Great. Thank you.

Jim Lines: Thank you.

Operator: Thank you. The next question is coming from the line of Jon Braatz with Kansas City Capital. Please proceed with your question.

Jon Braatz: Good morning, gentlemen.

Jim Lines: Good morning.

Jeff Glajch: Good morning.

Jon Braatz: You've touched earlier on China. When I look at your numbers, your sales numbers for this year so far, sales out of the Mid-East are down substantially. Are you seeing the same thing in the current order flow out of the Mid-East? And if so, is there an issue in the Mid-East that corresponds to the softness?

Jim Lines: From a comparable period point of view, we had some very nice orders converting about a year ago for large refining projects for the Middle East. We have a very nice refining project for the Middle East that will begin to convert as we go into subsequent quarters that should begin to show that revenue mix pick up a little bit. And as we look at our bid pipeline, we have an extraordinary amount of bidding activity for refining projects in Kuwait, Oman, Saudi Arabia, petrochem in Qatar, and elsewhere. So we're expecting to see the Middle East, while it can be lumpy, remain very important to us. And as we think about how it looks going forward, I'm more positive about the bookings opportunities than if I were to look backward.

Jon Braatz: Right. Okay. So it's more of a timing issue than anything else.

Jim Lines: Right.

Jon Braatz: Nothing really has changed there. Okay. How much exposure do you have in Canada to the oil sands area?

Jim Lines: That's a very important market for us. While it's important, typically though, it hasn't represented more than 5% to 10% of sales in a given period. And for how we participate in the oil sands market, which is primarily in the downstream sector called the upgraders, we've not seen more than two projects move in an 18-month period. And the order value for us for those types of projects would be $4 million to $6 million. So it's very important but a disproportionate amount of our sales mix, and I don't see that changing going forward.

Jon Braatz: Yeah, okay. Alright, thank you very much.

Jim Lines: You're welcome.

Operator: Thank you. The next question is coming from the line of Brian Rafn with Morgan Dempsey Capital Management. Please proceed with your question.

Brian Rafn: Good morning, guys. I jumped on late, so bear with me.

Jim Lines: Sure.

Brian Rafn: Give me a sense, as you've had a very strong first half, if you go back to the beginning of the year, regarding your CapEx and your head count additions, are you on track as you build towards that peak sales level?

Jim Lines: Sure. Actually, that program to prepare for the strong demand has been executed very well. Over the last three years, and we've been on a journey here to ready our business for the strong demand that we were anticipating, we've actually added 80 people to our business from December 2010 to December 2013. And they've been spread fairly equally across our direct labor and our indirect labor. So, year-over-year, it's been in the 20-people range that we've added. And as we look at how we're moving into fiscal 2015, perhaps another 10 people to 15 people will be added. We'll begin to taper off, we believe, as we right-size the business for the future opportunities that we feel we'll be realizing one year or two years forward.

So the team actually has done a remarkable job to get our staffing level ready. And from an operating perspective, I'm extremely proud of how the team did that while maintaining reasonable levels of operating profit while we invested ahead of the corresponding revenue. So a long-winded answer to your question, we have added people year-on-year, and over a three-year period, we've added 80.

Brian Rafn: Good answer. Do you have any hiring bottlenecks? Engineers, I hear, especially in manufacturing, everybody is just starved for engineers. Give me your sense if there's anything in that mix, or welders. Or is there any specific specialty that's really tough for you guys to draft and retain?

Jim Lines: In general, acquiring skilled labor or indirect personnel is challenging. What I've seen our management team and our human resources department do is reposition Graham, rebrand Graham as an employer of choice over the last two years or three years, and it's helped us immensely to acquire the talent that we need. We communicate that we are a stable business, we're a profitable business, we're growing, we have excellent wage packages, we help employees build a career at our company over a long period of time. And our strategy to rebrand our company as a different employer than a typical industrial really has ramped up our ability to acquire the talent.

And while still challenging, Brian, I believe our team has found a way to resolve some of that constraint that I would have said was a greater constraint three years or four years ago.

Brian Rafn: Okay. Good answer. In a parallel, while you certainly added the human component, what, over the last three years, have you invested in CapEx, in brick and mortar, in the physical footprint of the plants?

Jim Lines: If we take all the aspects of our preparedness for where we believe we're going over the next three years to five years, it's been extremely thoughtful, and it has us ready, which is great. That's a great feeling for us as management. We've invested significantly in productivity enhancements for our facility and new machining equipment that reduces lead time, reduces cycle time, as well as modern welding equipment.

We basically thought of what we can do to enable our workers to be successful and help us realize our strategies so we've invested in their success with manufacturing equipment. We've invested to enable their productivity improvements with IT tools, and a great asset that we've unlocked is our ability to onboard these 80 new employees in a way in which we've thought about training and onboarding differently, so their time to proficiency has been halved.

In the past, from that first introduction to our company to becoming a productive employee, whether it was a person in our production area or in engineering or in design and drafting, that might be a two-year to three-year process. Our management team has thought about that because we had to be ready to grow and they tackled that. So the time to proficiency has been cut in half or better.

So, if I take all of this together, and the pieces that we've thought about of how to ready our business, I can't be more pleased about how we're positioned to capitalize on the strong demand that we see going forward. The team has done a great job, across a number of facets that had to be addressed.

Brian Rafn: Okay. You partially answered my next question. Your time is focused on developing bids and quotes and how quickly you can convert them to sales and the back and forth. You've touched on something with the new modern welding equipment. What have you seen, Jim, once you get an order of the cycle time throughput and efficiency? Do you have any data metrics that you can share of what Graham might have looked like processing a condenser or ejector order three years or five years ago versus what you can do today? How quickly can you get that live order through the plant?

Jim Lines: Sure. I'm going to address it in two ways. One, if you think about these large orders that we talk about, aside from a naval order, in rough numbers an order-to-shipment cycle is 12 months. Half of that cycle is in our office. Second half historically has been in our plant.

With the investments that we've made on the engineering side of the business to get ready for the strong demand, we had a great opportunity to stress test our investment in our personnel. We actually have just run at about a 2x throughput capacity for six months, with the order levels that we had, and we cut lead time at that 2x capacity by about 15%.

So our team executed a 2x level at about 85% of the lead time that we used to have historically. That has validated that we hit the mark, which is very gratifying. So if you think about over six-month period with the order levels that we had, we just executed at about a $140 million run-rate for a six-month period through our engineering team, and they did so with less lead time that we historically have seen.

On the operating side, I will be able to answer that better in about a year after we push this slug of work that we just got through our plant. The plant wasn't necessarily fully loaded as we were looking at fiscal 2013 and 2014, but as we're going into 2015, our operations will be loaded. The productivity should be sharper and improving, and I'd like to hold off on answering that question for about three more quarters.

Brian Rafn: Okay. I know you've certainly done a fabulous job, giving us some insight on that. You talked a little bit about your four reactor projects in China. What is the mindset there? Do you see a difference, a price-quality-value proposition? Have the Chinese become more sensitive to engineering specifications and prowess? Or is it always about price? How might the Chinese be different or are they very, very similar in the power markets to other global customers?

Jim Lines: The reactors that we've been involved with have been the Westinghouse AP1000. So the design basis and the specification requirements and the quality control have been consistent whether it be a North American project or a Chinese project. The big difference though, Brian, comes down to the willingness of using a local supply chain for the Chinese market versus demanding western quality.

There are very fine businesses in China that produce these products. There is a tendency to look more locally for the more rudimentary-type products as opposed to products where there is a high cost of failure or a specialty of how they're being built or designed. Then, a western supplier might fit better.

So it's really been based on what criticality there is with the product and whether there is a local supply chain that can serve that opportunity. In China, ideally, I believe over time I prefer to do it all locally. Right now, they're not necessarily able to do that entirely.

Brian Rafn: Okay, alright. And then, just one closing one on the Navy side. Are you seeing any progress in additional orders for the Virginia-class attack subs? And on the carrier side with the announcement of the CVN-80, I think it's the Enterprise, and a very, very early indication that the John

F. Kennedy is under construction. Any forward bids, quotes, lead orders, anything from the Navy on the carrier side?

Jim Lines: Nothing really other than some initial discussions that we've had. And we've said this before, carriers, as you know well, Brian, carriers are built on a five-year or six-year cycle.

Brian Rafn: Yep.

Jim Lines: The last carrier order we got was in December of 2009. So we would anticipate bidding activity to begin for CVN-80 and maybe orders materialize sometime in the latter part of fiscal 2015 or into fiscal 2016. We don't think the build cycle is changing from five years or six years. So, we'll be moving into the next carrier bidding activity over the next 12 months to 15 months, I would expect.

And on the submarine front, again, that's a strategic area we're trying to break into. We're restricted on what we can discuss there about our bidding activity or order rates. I can just leave with you that I'm pleased with the execution of that strategy and feel over time we will realize our objectives there.

Brian Rafn: Okay. And then just one more, are you guys going to have that the Analyst Meeting again in September this year or is that something you're going to just do episodically?

Jim Lines: We've talked about it. We believe it was valuable as we communicated the strategy of our company. We're setting a date for the latter part of September. The date has been locked down. I just don't recall it exactly. I think it's 25th of September. We'll give some announcements out to the investment community, and we hope to have great participation, just like last time.

Brian Rafn: Yeah, great. Super. Thank you, guys. I appreciate the good job.

Jim Lines: Got it. Thank you.

Operator: Thank you. Our next question is a follow-up coming from the line of Jason Ursaner with CJS Securities. Please proceed with your question.

Jason Ursaner: Thanks for taking my follow-up and, first, I appreciate the commentary on utilization and lead times there. I thought that was really good transparency. You talked a little earlier on the nuclear market. So I was just wondering, regarding the commentary on the domestic market, was that mainly the life extension MRO-type project demand, where you give some numbers on average size?

Jim Lines: Yes, as we think about the North American market, it primarily is an MRO sale, keeping the existing utilities operating and running and supporting that endeavor. Although, we do have some orders that we've talked about in our backlog that are for new construction. However, most of what my commentary related to was on the MRO side.

Jason Ursaner: Okay. And the two stationary plants, the Vogtle and Summer, I think you originally had $15 million of orders. Is all of that still in backlog or has there been some percent completion?

Jim Lines: We've converted a good percentage of that. It's probably somewhere around 50% to 60% that remains.

Jason Ursaner: Okay. And I think originally, you talked about another $15 million to $25 million potential content out there. I know those projects seem to be hitting some challenges, but are there any thoughts on additional content out there and the timetable for when those projects start heading towards completion?

Jim Lines: We have won some additional content but it's been smallish. We have secured additional orders for the Summer and Vogtle plants. Some of the larger work hasn't materialized yet in terms of placing orders, and admittedly there have been a couple of orders that we lost.

Jason Ursaner: Okay. And on the spent fuel storage containers, any update there? Does the current CapEx plan include any of that, or can you provide an overall update on what you think of that market?

Jim Lines: We're still developing our strategy and operating model to participate in that segment of the nuclear utility business. Our strategies have not been formulated to the point where it would warrant a CapEx.

Jason Ursaner: Okay. And then last on the naval nuclear, the carrier program. You mentioned the bid cycle on CVN-80. I was just wondering on CVN-79, I thought maybe there were still a few pieces up in the air beyond the $25 million surface condenser. Are any of those still out there, or is it really shifting towards the 80 at this point?

Jim Lines: We're shifting our attention toward 80. One or two orders have been placed for additional addressable opportunity. We were not successful on 79.

Jason Ursaner: Okay. And the $25 million surface condenser, just what percent of that is still in backlog versus revenue recognition?

Jim Lines: About half of it remains.

Jason Ursaner: Okay, great. Appreciate that. Thanks.

Jim Lines: You're very welcome, Jason.

Operator: Thank you. There are no further questions at this time. I would now like to turn the floor back over to Mr. Lines for any concluding comments.

Jim Lines: We thank you for your time this morning and we appreciate your questions as we discussed Q3 and our outlook as we move forward. We had some very good discussion around markets and direction of our business. We appreciated your questions, and we look forward to updating you on our fourth quarter conference call late May. Thank you.

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

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