Operator: Greetings and welcome to the Graham Corporation Second Quarter Fiscal Year 2015 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. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Karen Howard, Investor Relations for Graham Corporation. Thank you. You may begin.

Karen L. Howard: Thank you, Christine, and good morning, everyone. We appreciate your participation in our second quarter fiscal 2015 financial results conference call. You should have a copy of the news release detailing Graham's results that was released this morning. We also have slides associated with the commentary that we're providing 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 Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff will review the results for the quarter and the first half of 2015 as well as our outlook, 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 and in the slide deck, 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.

With that, I'm going to turn the call over to Jim to begin.

James R. Lines: Thank you, Karen, and good afternoon, everyone. We hope by now everyone has reviewed our press release. Let me begin on slide three with a few opening remarks. Fiscal 2015 is a foundation year. It will demonstrate that the steps taken by the company to expand its capacity during the downturn were done at the right time, in the right way and have enabled the company to achieve strong revenue and profit growth. Our strategies are simple, penetrate deeper into our markets and use this increased capacity to take greater share, along with elevating the level of our predictable, less cyclical-based business.

We will concentrate effort toward refining, chemicals and petrochemicals, power generation, the U.S. Navy, and other closely related markets. We're executing our strategy to double our revenue and are developing longer term initiatives to leverage our competencies and financial strength to diversify and further drive our growth.

Moving on to slide four, you can see that we had a solid quarter from every perspective. Revenue expanded to $35.6 million, up 45% from the same period last year and up 25% sequentially. Net income was $4.2 million, which is up 62% from last year's second quarter and up 75% from the first quarter of this year. Exceptional work was done by our managers and employees to deliver such a strong quarter.

Order levels matched our strong revenue allowing the company to exit the quarter with a solid backlog of work. Reaching the midpoint of the year as strong as we have has permitted revenue guidance to tighten to the upper end of our initial range. We expect full year revenue to be between $125 million to $130 million.

Moving now to slide five for a little more detail, second quarter sales were well balanced between chemical and refining industry sales. We are benefiting from strong North American chemical industry investment that began to expand revenue levels starting in our fourth quarter of fiscal 2014. We hadn't seen this level of North American investment since the 1990s. This change to bring new capacity investment back to North America has been terrific for us thus far. Power Industry sales were steady, as were sales to our other markets, including sales to the U.S. Navy. Domestic sales were 61% of total sales, again driven by North American chemical industry investment and further enhanced by sales to U.S.-based nuclear utilities and to the U.S. Navy.

I'm now going to pass the quarter review on to Jeff for a more detailed review of our financial performance.

Jeffrey F. Glajch: Thank you, Jim, and good morning, everyone. As Jim mentioned, we had a strong quarter and a good first half of the year and we are on track towards our full year guidance, which we have tightened to the upper end of the revenue range.

Q2 sales were $35.6 million, up 45% when compared to $24.5 million in the second quarter last year. Sales in the second quarter were 61% domestic and 39% international, representing the strong domestic petrochem order level from the first half of last year. In last year second quarter, sales split was 58% domestic, 42% international.

Domestic sales increased to $21.9 million compared with $14.1 million last year, an increase of greater than 50%. International sales also increased to $13.7 million from $10.4 million last year. Gross profit increased to $11 million from $8.3 million in the second quarter last year. This increase was driven by volume gains, partly offset by the mix of projects in this year's second quarter compared with a much more favorable mix in last year's second quarter. Gross margin was 30.9% compared with 33.8% for the same period last year. Gross margin was up 310 basis points from the sequential quarter, which was 27.8%, due primarily to leveraging our fixed cost base.

EBITDA margins increased to 19% from 18% in last year's second quarter, driven by leverage in SG&A. While actual SG&A spending was up by $300,000 or 7%, the percentage of sales the SG&A represented was down 480 basis points to 13.4% of sales in the second quarter this year. Net income increased to $4.2 million from $2.6 million or $0.41 per share, up from $0.26 per share.

Moving on to slide eight to look at the first half results, sales in the first half of fiscal 2015 were $64.1 million, up 21% when compared with $52.8 million from the first quarter last year. Year-to-date sales were 69% domestic and 31% international compared with 55% and 45% respectively in the first half of last year. Domestic sales increased to $44.1 million compared with $29.1 million last year, while international sales were $20 million this year, down a bit from $23.7 million last year.

Year-to-date gross profit increased to $18.9 million from $18.3 million last year. Again, this increase was driven by the volume gains and partly offset by the mix of projects in the first half of the year compared with last year. Gross margin in the first half of the year was 29.5% compared with 34.7% for the same period last year.

Year-to-date EBITDA margins was 17%, down from 20% in the first half of last year. SG&A spending was up $250,000 or 3% as a percentage of sales was down 260 basis points to 14.2% of sales. Net income increased to $6.6 million from $6.4 million or $0.65 versus $0.63 per share. If you recall, last year, the majority of our earnings were in the first half of the year, whereas this year we expect that second half of the fiscal year to be more consistent with the first half of this year.

On to slide nine, we had a strong cash generation in the first half of the year. We generated $8.5 million in operating cash flow, up from $4.3 million last year. Our cash and investments position increased to nearly $65 million despite spending $4.1 million in capital in the first half of the year. The vast majority of the capital spend in the first six months of fiscal 2015, was used to complete our Batavia expansion, which was finished in the second quarter.

Finally, 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 lines of credit for future acquisition activities as well as other investments to drive shareholder value.

Jim will complete our presentation by discussing our strong order and backlog levels and the tightening of our full year guidance.

James R. Lines: Thank you, Jeff. I am now referring to slide 11. We are extremely pleased by the order level in the second quarter. It is a difficult comparison to the exceptionally strong level of orders in the second quarter of last year. However, I consider the progression of order levels during the past three quarters to be more reflective of our markets at this point.

Order levels moved from the mid $20 million range, to just over $30 million in our first quarter of fiscal 2015, to $35.4 million for new orders in the second quarter of fiscal 2015. We had a more balanced mix between domestic and international bookings. Domestic orders were 47% of the total in the quarter. Notable orders included two separate orders for oil sands projects that are reflected in our refining industry statistics, a pumping system order for a U.S. based nuclear utility, two separate orders for the North American chemical industry, an order for a new refining capacity in China, and an order from a U.S. refinery adding ultra-low-sulfur diesel production capacity. We continue to have a healthy pipeline of open bids. The bid pipeline provides optimism that book-to-bill for the year could be greater than one.

On to slide 12, we have a healthy backlog level of $114.8 million as of September 30, 2014. There is good balance across our key markets; 38% of backlog is for the refining industry, the chemical industry is 21%, our backlog for the U.S. Naval work we're doing is 21%, and our power market backlog is at 13%. Quality of new orders is encouraging, as they have been on the stronger margin than what we recently relieved from backlog as revenue.

It is important to note that approximately one-third of current backlog is from customers or markets not traditionally served in our recent past. Backlog conversion is projected to be 70% to 75% across the next 12 months, 15% to 20% across 12 to 24 months, and the remainder two years and longer.

Let me close our prepared remarks with slide 13. Fiscal 2015 guidance has been tightened to a revenue range of $125 million to $130 million and gross margin in the range of 30% to 31%. This is due to the backlog margin that converts during the second half of the year as well as the degree of outsourcing during the second half of the year. SG&A guidance is 15% to 15.5% of sales and our effective tax rate is 33% to 34%.

Christine, please open the line for questions.

Operator: Thank you. We will now be conducting a question and answer session [Operator Instructions] 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, nice quarter.

Jim Lines: Thanks, Chase.

Chase Jacobson: My first question is related to the tightening of the revenue guidance. Over the last couple of weeks we've seen other engineered equipment companies talk about how once they've finished their products, the customers tell them that they're not ready for the products to be delivered and they're forced to delay the shipments. Obviously, you guys did not have that in the quarter, but how worried are you about that situation occurring as you move into the second half of your fiscal year?

Jim Lines: That's something that has been ongoing since we booked that slug of work in the first quarter and second quarter of last year and we had indicated that we anticipated this type of situation may occur. It comes as no surprise to us that it is occurring. Much of the North American chemical work has either been delayed by our customers or our customers are pushing to the right in terms of its conversion. We are a little bit different than some of the other companies whose commentary you're referencing because our revenue recognition standard is percent of completion. Those other companies have completed contract revenue recognition standards; therefore they're more affected by the impact of a delayed conversion. We tend to be less impacted by that because of how we recognize revenue.

Secondly, because of the anticipation of this type of impact and projects moving to the right, our operations team has kept enough WIP in operations to be flexible and deploy a workforce to activate projects when we're advised a project is put on hold. We've thought in anticipation of this and have been able to address it without much worry as to how it would affect our second half revenue. I do think the big distinction between Graham and those other companies that have commented, as you've just advised, is the revenue recognition standard.

Chase Jacobson: Okay. That makes sense. My other question is on profitability. I want to be clear on the gross margin. I know it's only a small change, but is that because of what's already in backlog or what's coming into backlog? Additionally, SG&A was pretty low in the quarter, but going forward the next couple of quarters, it's going to increase. Can you give some specifics around what's going on there and how we should look out at the second half of fiscal 2015 and beyond? I don't expect you to give guidance, but given how much it's going to increase as a percentage of sales, I want to try to get a sense of where you think the business should be going forward in terms of SG&A?

Jim Lines: As it relates to gross margin, the recent orders in our fiscal Q1 and fiscal Q2 of 2015 really aren't in an appreciable way generating revenue in the second half of the year. The margin that we're going to deliver in the second half of the year relates primarily to orders that were booked between nine and 15 months ago. As you might recall, during some of our prior conference calls, we had commented upon our aggressiveness to preserve market share and to defend our installation base in North America against some international competition, and those decisions are now flowing through backlog, so that has an impact on margin.

Secondarily, because of the strong level of bookings in Q1, Q2 of last year, which we've also commented upon, we stepped up the degree of outsourcing that we're doing and that has an impact of compressing the margin as well, not too different from what we experienced in the first half. But in a nutshell, that is what's causing the margins to be fairly similar between the first half and the second half. If you would take our guidance that we've given, it would suggest that the second half margin is between 31% and 32% on average.

Jeff Glajch: Chase, regarding your SG&A question, if you look at SG&A in the first half of the year it was $9.1 million, and if you were to take our guidance range on revenue and SG&A, it would suggest that SG&A in the second half of the year is about $1 million higher than the first half. The difference there primarily is that if you look at the mix of what we sold in the first half of the year versus the second half of the year, there's more commission on the second half of the year sales than on the first half of the year sales, that's the biggest item. And then to your question about how do you think about it more in the future, I would look at the whole year as kind of your base when you're thinking going forward. So don't look at the first half or the second half but kind of combine the two. That will get a more normalized mix of our SG&A cost including commissions.

Chase Jacobson: Okay. I have one quick follow-up question on the gross margin. I know last year in the first half, there was a very strong mix of aftermarket. Has that been changing throughout this year, is there more or less of that in the second half versus the first half? Is there anything from the aftermarket business to read into the margin?

Jim Lines: There is nothing that would suggest we are going to be outside of our guidance range. We do have a nice amount of that type of aftermarket work in the second half, but to be quite candid that's offsetting the margin that we are dealing with from those strategic decisions we took to protect market share.

Chase Jacobson: Okay. Thank you.

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. Congratulations on a strong quarter.

Jim Lines: Thanks, Jason.

Jason Ursaner: Last quarter one of the key messages was that orders hadn't pushed through to the finish line, but you had confidence in the higher bookings materializing and that orders should start to flow through in the fiscal second half for you guys. Is that still how you're looking at it?

Jim Lines: Jason, for the major orders--those that typically have press releases--they usually will have an order shift cycle of between 12 and 15 months, with the revenue recognition cycle being the last 6 months to 8 months of those 12 to 15 months. What we booked in our second quarter minimally flows through as revenue for our larger projects in the second half. Our short cycle work, which is fairly consistent from quarter-to-quarter, that of course flows into revenue and that was modeled into our guidance that we've given and also our commentary from a quarter ago, but it really comes down to the fact that there's not sufficient time for a major order to be reflected in the second half revenue with our type of products and our cycle times.

Jason Ursaner: Okay. Are you expecting Q2 revenue to be the peak for the year? I understand you're moving to the upper range on the previous guidance for sales, but qualitatively it doesn't sound like you are really implying a sequential decline in the back half, so I'm trying to determine whether it has to do with timing or if it's a bit of conservatism.

Jim Lines: If we take the midpoint of our guidance as a reference point, it would imply $64 million in the second half--$32 million per quarter is a simplistic way to do the math. We do expect quarter-to-quarter variation in Q3 and Q4; we are not expecting Q3 or Q4 to push materially above Q2.

Jason Ursaner: Got it. Going back to last quarter with the second half expected to be stronger, is it that this quarter came in a lot better than expected or that things pushed out a little bit in the back half?

Jim Lines: We had very high productivity, utilization and conversion and we didn't have our customers get in our way. That certainly does help, and that really is what benefited the second quarter, the fact that customers got out of the way.

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

Operator: [Operator Instructions] Our next question comes from the line of Joe Mondillo with Sidoti. Please proceed with your question.

Joe Mondillo: Good morning, guys.

Jim Lines: Good morning, Joe.

Joe Mondillo: In terms of the orders that you're receiving today, how does the gross margin look compared to the gross margin that you're actually realizing on the P&L look like?

Jim Lines: The gross margin projection for the short cycle orders is consistent, not much variation. For the larger orders, we are seeing an improvement in the booked margin relative to the relieved margin--what we took in as revenue.

Joe Mondillo: Okay. Is that because you have more leverage in terms of pricing?

Jim Lines: There's a mix component. Over past several years, we have talked about how there is a greater margin potential for refining work versus petrochemical work, and we've had a decent amount of refining orders in Q2, which provided the opportunity for an improved margin relative to the revenue that went through in Q2, which had a large component of North American petrochem.

Joe Mondillo: Okay, that's what I thought. That brings me to my second question, given what we've been seeing with oil prices, and the slowing that we're seeing in emerging market regions, is there any concern that those orders within the oil refining space dry up at all or get pushed out?

Jim Lines: Certainly, Joe, we have our eye on that and are watching those two aspects of business drivers very carefully. We have over our history been closely correlated, although we lag the price of oil, and we also are watching the global economy and the pace of GDP growth around the world, which could have an impact. As I think about it right now though, while we are watching it very closely, our bid pipeline is still very strong and the quality of the conversations that we're having with our customers suggest they are optimistic about their projects, therefore we remain optimistic.

I'd like to note that while we're all thinking about oil, and we should be, we started our growth cycle in the early 2000s, or going back even further, in the 90s, when crude oil was $25 a barrel and we had very strong order intake, not necessarily driven off of new capacity but the feedstock diversification, debottlenecking, and sweet to sour conversions. Then, as we saw crude oil go from $25 to $100 a barrel between 2003 and 2010, we had a very strong order intake again around feedstock diversification, capacity creep, bottom of the barrel conversion, as well as new capacity.

As we look at where oil is today in the range of $80 per barrel, we're still very optimistic about the longer-term outlook because of investments being made today related to new capacity, with those investments not planned to come on-stream until 2017, 2018. While the volatility of crude oil pricing is interesting, our customers are more long-term oriented in their thinking for new capacity, as well as investments in revamping and feedstock flexibility and getting more out of the fixed assets, and so we still remain very optimistic about the refining segment of our business being a very strong driver of our growth. Having said all that, of course we're being mindful of the long-term implications of a sustained reduction in crude oil price, but we believe if it stays between $80 and $120, its business as normal.

Joe Mondillo: Okay. Can you remind us where you're seeing the orders come from this quarter specifically? It was a pretty big quarter in terms of oil refining owners. What region of the world are you seeing that come from?

Jim Lines: We had a couple of orders for oil sands projects in Canada. Then, we had some Middle Eastern refining work that came in, and a couple of U.S. projects were secured, as well as a new capacity project for China was won. It was our usual end use locations, Canada, North America, the Middle East, and China or Asia.

Joe Mondillo: Okay. You've been consistently in the 30% to 31% gross margin range for a few years now, with this year being the first big year where you're starting to see pretty good growth on the top line. Do we need to see more robust growth in orders, or growth in sales, to really start to see the gross margin leverage up to that higher range? I think you have a peak range of closer to 37% or 38%, do we need to see a more robust environment to get to that?

Jim Lines: There are probably three leading indicators that we as management are looking for. One would be a stronger pace of orders that helps with the pricing power. Secondly we look for product mix. As we see refining outweighing bookings or sales to the petrochem market, we should have a natural margin lift. Third is the degree of outsourcing. We've had very high outsourcing in our first half and we're going to have a very high outsourcing in our second half; if we could have executed all that work under our roofline we estimate that we would have had 120 basis points to 140 basis points higher gross margin.

Some of it is the pace at which orders are led, if it all came in a very short period of time as it did June through September of the previous year, which pushes outsourcing and has an impact of dampening margins. But as we look at a more normalized order level, consistently strong bookings, a more balanced degree of outsourcing, and then product mix going more toward refining, and more toward ejector systems, we should have a natural margin lift to get us off of the 30% to 31%, the 31% range that you're citing here. There are the three factors we're watching and that we're modeling in our outlook to move from where we are to where we project it will be.

Joe Mondillo: Okay. In regard to the third bullet that you mentioned, the capacity expansion project that you're doing should resolve that. When is that project expected to be done?

Jim Lines: Our facility expansion is done and we've grown into that expansion now, we've filled in our rooflines with work. We always will have outsourcing as part of our mix. We feel that's an important aspect to handle surges in demand and also have a flexible cost basis that when demand weighs in, our cost structure is okay. We're a little more weighted than normal in our first half with the extent of outsourcing in terms of the number of production hours being done in someone else's facility, but as that pulls back to a more balanced 10% to 15% range, which is how we've modeled our business, we would see the improvement in gross margin that we mentioned a moment ago.

Joe Mondillo: Okay, great. Thanks a lot.

Jim Lines: You're welcome.

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

Chris McCampbell: Good morning. I'm just trying to get a better understanding of revenue guidance in relationship to the slide presentation. Are you saying that the expectation is that there shouldn't be much in terms of sequential growth when we look at first half over second half? How does that relate to the near-term target of $200 million in organic revenue? Does that mean there will be a step-up or is there sequential growth? What does near-term mean, could give a little more color on that please?

Jim Lines: The first part of the question is 2015, and within our guidance that we've given, taking the midpoint as the reference point, it implies the second half was comparable to the first half, and therefore in the lower to mid-30% range per quarter revenue, building out to 34% to go to the middle of our guidance. That doesn't imply that's our execution horsepower, that's the extent of what we could do, that's just where we are with the quality of that backlog and what that corresponding revenue translates with that level of production hours.

We believe as we move into next fiscal year and we get the backlog out of the business that was booked 12-15 months ago, that some of it has a rougher margin. I'm not faulting the decisions we made at that point in time because they were strategic decisions to defend our market share and keep competition out of our core end-use customers, but now we have to deal with that in terms of its impact on margin and corresponding revenue. That bleeds through in Q3 and Q4 in the way we just described.

In terms of where we're going in our strategy from the $100 million to the near-term target of $200 million, while we haven't been definitive in how long that will take, during the Investor Day we did comment that if we thought in terms of the last growth cycle--2005 through 2009--where we had a top line CAGR of about 24%-25% and we have the same level of optimism of our pipeline today as we had back then in 2000, that implies that we get there between three and five years, and that's what we've mentioned during the Investor Day and that's how we're modeling the recovery based on the information that we have and the quality of bids in our pipeline.

Chris McCampbell: Okay. You obviously have continued to build cash from being successful at managing the business. Can you give us some idea of the acquisition atmosphere out there, and what you are seeing?

Jeff Glajch: Chris, this is Jeff. We are continuing to look at opportunities. Pricing had gotten a little more expensive for a while, but it sseems to be coming back a little bit, not a lot but a little bit right now, and so we are continuing to see where things fit from a pricing perspective as well as obviously finding that company that's the right strategic fit for the business. That activity is ongoing, but as you know, we're not likely to be one that will pay an extremely high price. It was harder to find those opportunities in the recent past.

Chris McCampbell: Is there ever a point where you would look at being a little more proactive in terms of maximizing shareholder value in terms of dividends? I know you've got a relatively thin float, so you may not be as interested in share buybacks, but does it have to be exclusive where essentially Graham is saving all of the cash for an acquisition as opposed to paying a more meaningful dividend?

Jeff Glajch: Sure. Chris, we are continually looking at our capital structure, not only as it relates to internal growth and acquisitions, but also looking at other options such as dividends and share buybacks and things like that. I can assure you that it is something that's always on the agenda, and I suspect it will continue to be on the agenda. It's not all exclusive; we can look at all the options certainly.

Chris McCampbell: Thanks for taking the question.

Jeff Glajch: Thanks, Chris.

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

Dick Ryan: Thank you. Say, Jim, I was looking at the power line, and it kind of bottomed out over the last couple of quarters, but now we're seeing a little uptick. Can you talk about what you're seeing in power and more particularly on the nuclear side?

Jim Lines: Sure, Dick. We are seeing what we believe is a bounce off of the post-Fukushima pullback on spending of the U.S.-based nuclear utility market. We are seeing more vibrancy there. In addition to that, we've also added sales management resources into that segment of our business to drive channel management, drive opportunity generation and to begin to expand our backlog as we've begun to see the market improve. We're very optimistic about that and the strategies that we've undertaken to open up the bid pipeline to be broader and to have many more opportunities to pursue and hopefully secure, so we begin to grow backlog and then correspondingly grow revenue. That will take some time but we're in the midst of doing that now with the personnel that we've put in to drive that strategy.

Dick Ryan: Can you quantify what the nuclear bid pipeline looks like? Or the backlog?

Jim Lines: The backlog is about 10% of our overall backlog, which is not too dissimilar from where it has been. An anecdotal comment is, in this past quarter certainly we added backlog that was superior to the revenue that was relieved from backlog. That's a positive sign. The team again is building the opportunity pipeline to be larger than it has been the last 12 months to 18 months and we're very encouraged by the progress that's being made there by the sales leader who is driving that and her team. The quantity of the pipeline is in its typical range, Dick, between $50 million and $75 million of trailing 12 month bid.

Dick Ryan: Your footprint has been pretty much domestic with the acquisition a couple of years ago, are you able to look internationally at all, will that be part of this build in the business?

Jim Lines: We have had some international work over the last few years from Korea and Eastern Europe, we are looking at that and we do have some international bids in our pipeline now. I'll be candid though, our initial battleground to win and grow share in is North America because it's right in front of us and we think we can do so much more there than we currently are doing. International sales strategy and channel management strategy is a little more complex. We've chosen to wage the initial battleground in North America; we are preferentially looking at international opportunities in a more reactive way than a proactive way.

Dick Ryan: Okay. Good. Thanks guys.

Jim Lines: You're welcome.

Operator: Our next question comes from the line of John Bair with Ascend Wealth Advisors. Please proceed with your question.

John Bair: Thank you. Hello Jim and Jeff. Nice quarter. As a follow-up to the power market question, I was wondering if the power companies in general might be shifting some of their resources to upgrade or work with lower input cost from declining gas prices, oil prices, coal prices and so forth, and if so do you have any sense that there's an impact there that might help out those markets for you?

Jim Lines: As we look at the power segment as a whole, not just speaking about the nuclear utility, we do identify that low-cost natural gas is creating a shift in the industry back toward what we saw in the late 90s and the early 2000s of combined cycle power plants, and I think we're still a couple of years out from that really being significant but we're getting the indications and the directional changes are clearer to us now than they were two years ago, so we do think there will be a pickup in what's referred to as a combined cycle power plant analogous to the 1998- 2003 combined cycle power wave that we were participating in.

As it affects the nuclear utility, I think they've adjusted and now understand how natural gas will change the power generation mix and the nuclear utilities are getting back to investing in their current assets to keep them running, investments in power augmentation, life extension, Fukushima-related mandatory investments around safety, are all things that will benefit our business.

The one area that we are trying to understand a little bit better is the direction of the renewable energy market, it's hard to discern the long-term direction, whether it be waste energy or solar energy because there are tax credits related to the renewable energy market, it's a tax incentive base. This market has been part of our sales mix the last three or four years, we've had $3 million to $5 million of renewable energy type sales, but unfortunately it's really hard to judge accurately the direction of that in the next three years to five years.

John Bair: Okay. Thanks. A lot of the condensate and oil production that's coming out of some of the shale plays, particularly in the Gulf Coast and so forth is a higher quality. Is that still impacting upgrades of the refining complex from sour to sweet processing capabilities? I've seen and read that a lot of those refineries can't handle this higher quality crude.

Jim Lines: That is correct and based on what we have been hearing, as well as our own judgment, we believe the refining industry in the U.S. is trying to understand the implication of blending shale-based crudes into the crude slate. They have a positive effect in that they are lighter, sweeter, and therefore less energy intensive to process, but most refiners aren't processing that exclusively and the undesirable consequence of using that as a blended feedstock is that there is an emulsification, there's an undesirable outcome when they blend it with the normal crude slate that the refining industry is trying to understand its implication. We can't really judge accurately at this point the strength of the investments around revamping as it would relate to shale-based crude oil feedstocks, but I think the industry is still trying to ascertain how best to handle that low-cost desirable feedstock.

John Bair: Okay. Thank you very much.

Jim Lines: You're welcome.

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

James R. Lines: Thank you, Christine. As you've heard, we're very optimistic about our outlook for the remainder of the year. We're very excited by the results of our second quarter, which affirmed that the investments that the business made over the last three to four years were the right investments to make, that they were done on time, done the right way, and had us ready to handle the surge of orders we took on about 12 months ago that has resulted in a significant lift in profitability as well as revenue level. There is much more that this Company can do and we'll keep you updated quarterly on future conference calls. Thank you for your time.

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.