Operator: Greetings, and welcome to the Graham Corporation Energy Steel Acquisition 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, IR for Graham Corporation. Thank you, Ms. Pawlowski, you may now begin.

Deborah Pawlowski: Thank you, Jodi. It's nice to have everyone here this morning. We appreciate your time and interest in Graham Corporation. On the call I have with me today Jim Lines, President and CEO of the Company; and Jeff Glajch, Chief Financial Officer.

You should have the press release announcing the acquisition that we put out last night just after the market closed and there are also some supplemental slides that outline the comments that we'll be making today on the call. Jim and Jeff are just going to make some brief comments; we wanted to give plenty of time for Q&A. If you don't have the press release and the slides, they're both available on the Web site.

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

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

Jim Lines: Thank you, Debbie, and good morning everyone. Jeff and I are excited to be in Lapeer, Michigan, this morning to update you on our acquisition of Energy Steel.

Energy Steel is a wonderful addition to Graham. Lisa Rice, her managers and all of the employees of Energy Steel have built a strong brand and a fine company. As you know, we have been actively evaluating acquisition opportunities for the last 15 to 18 months. We have been impressed by what Energy Steel has done to expand the company and improve its services to customers and feel the management team at Energy Steel is capable of operating a much larger company. Our acquisition of Energy Steel represents a long-term commitment by Graham to serve the nuclear power-generating market. We believe there are multiple growth opportunities with this acquisition. Lisa Rice, the former owner of Energy Steel, will stay on as President of the company. We will work with her and her management team to implement strategy to penetrate more fully the nuclear market and to expand our market share.

Jeff, do you want to provide an overview and historical perspective of the Company?

Jeff Glajch: Good morning, everyone. Beginning on slide 2, you can see a quick overview of Energy Steel. As Jim mentioned, Energy Steel is based in Lapeer, Michigan, which is approximately an hour north of Detroit. It was founded nearly 30 years ago. The company has 52 employees, all of whom we are anticipating will remain with the organization, and we're excited about that. They focus on the nuclear power market. They provide custom, critical equipment, and supply raw material to the nuclear industry. They have superior quality processes, as is required in the nuclear industry, and that is a pretty significant barrier to entry into this market.

The facility, which you can see a picture of here— and I can assure you, as nicely as the picture looks, there's a little more snow outside here today, but it still looks nice even with the snow. There's a 60,000 square foot manufacturing and office facility, and there's ample land available that is owned by us to expand this facility. Energy Steel has significant nuclear and other certification stamps which will allow it to do business with the nuclear industry.

If you look at Energy Steel, its revenue for calendar year 2010 was in the $17-19 million range, and again looking at what we purchased the company for, it was approximately one time sales. It has operating margins very similar to Graham's, and we can talk a little bit more about that if people are interested, and the backlog at closing is approximately $8 million.

I'm going to turn it back to Jim to talk about the strategic fit of Energy Steel within the Graham family.

Jim Lines: Thank you, Jeff. This is a great strategic acquisition for Graham. As we think about the nuclear market and we're thinking long term about the growth opportunities, we see multiple legs to grow Energy Steel and Graham's sales to the nuclear market. We see it being able to more fully serve the existing fleet of 104 nuclear power plants in the US market. We will prepare the business to participate and supply products to the new-build nuclear market for the USA installations and also develop strategies to serve the international markets, where there is ongoing investment today in nuclear power generation.

When we set out our acquisition criteria, and we've communicated this over the last several quarters, we were looking for companies that fit our brand, fit our sales model and business model, and Energy Steel fits that very well. They have a strong management team that puts the customer first and thinks long term about the business and about continuous improvement. We think those are core values that are important and consistent with the values of Graham. We also were looking for a market that was a long-term growth market that perhaps would be countercyclical to Graham's traditional oil refining and petrochemical markets, and we believe the nuclear market is that.

The products that we can provide to the nuclear market through this acquisition include heat exchangers, vessels and components, pump refurbishment and components, piping machines and specialized valve stem assemblies, fittings, pipings and nuclear-quality raw materials. Energy Steel can provide nuclear code welding, testing, engineering and on-site support.

Again, this is a company with a strong management team. From our assessment of the management team, we believe it's a management team capable of operating and growing a much larger business than Energy Steel is currently, and, as Jeff said, the company has strong operating margins, gross margins, and they're comparable to Graham's current business, so it's a great fit into our Company.

As we move to slide 4, I'd like to give a little perspective on a nuclear power plant and where we see opportunity for Graham and Energy Steel to serve a nuclear power plant. Again, it's in heat exchangers, vessels, piping systems, raw materials and vacuum products. The reactor core and the containment vessel are where the most specialized products in the nuclear power-generating market are required. We'll be able to provide those products. Then, outside the containment vessel, there are also many other applications for, again, the heat exchangers, vessels, piping systems, and vacuum products that can be provided.

We see a huge growth opportunity with this acquisition, we're extremely excited about it and we're very impressed by the team at Energy Steel as a whole. Again, there are multiple legs to the growth strategies that we see; the existing base of nuclear plants, the planned investment in new construction in the US and then the international markets.

Turning to slide 5, Jeff can provide an overview of the transaction terms.

Jeff Glajch: Thank you, Jim. As you can see on slide 5, we purchased Energy Steel at a cost of $18 million. It was an all-cash transaction. We acquired the stock of the company and assumed no debt in the company. From a purchase price standpoint, we believe we purchased the company at approximately six times our projected fiscal year '12 EBITDA level, so we're very comfortable that we paid a fair price but that we didn't significantly overpay. We have a long-term lease in this facility, a five-year lease with a five-year extension to it, as well as an option to buy the facility, and we'll certainly take a look at that over the upcoming future.

Along with the $18 million purchase price, there is a $2 million potential earn-out which is based on profitability performance over the first two years of the deal. Should that occur, our purchase price would increase from $18 to $20 million, but our multiple would actually go from about six times EBITDA down to about five times EBITDA, so we're certainly hoping that we're able to pay that $2 million out based on the higher level of profitability that would occur.

From a post transaction standpoint, Graham at the end of the last quarter had just over $70 million of cash. After this transaction our cash balance will be in the neighborhood of $50 million, so we still have a very strong balance sheet. The impact to our earnings in the short-term, in the third quarter of fiscal 2011, which ends in December, our EPS impact is a charge somewhere in the neighborhood of $0.07 to $0.09 a share. We'll clarify that, obviously, when we report our results at the end of January. Those are pretty much all of the transaction costs which we incurred on this project, and, as I mentioned, we believe this will be, not only from an EBITDA standpoint but from an accretion standpoint, this will be accretive to our fiscal 2012 earnings.

In summary, as Jim mentioned early on, we're very excited about Energy Steel. We believe we have a company here that has a very strong management team, similar to Graham, with a focus on the customer and a focus on the quality of the product that they produce, and we're looking forward to growing this business and continuing to grow Graham's business in unison.

With that, I'd like to open the call up for any questions. Thank you.

Operator: Thank you. Our first question is coming from Wayne Archambo with Monarch Partners.

Wayne Archambo: Yes. Good morning. Was it an auction process or it was a deal just between you and the entity? Were there other bidders involved?

Jim Lines: There were not. We actually approached Energy Steel earlier this year and it was just a process between us and them; specifically, with us and Lisa.

Wayne Archambo: I don't know if you've mentioned this; is there a break-up fee involved?

Jeff Glajch: Wayne, the deal actually closed yesterday so, no, there was nothing involved there.

Wayne Archambo: Okay, great. Congratulations.

Operator: Our next question is coming from Chris McCampbell with Stifel Nicolaus.

Chris McCampbell: Congratulations, guys. Do they have any 10% or more customers?

Jim Lines: Like Graham, in a given year, a customer may represent more than 10% of sales, but it's rare that year after year, year-over-year, that same customer represents 10% of sales.

Chris McCampbell: Do they have any now? I guess I'm just kind of wondering what other companies I could be looking for a metric to growth.

Jeff Glajch: I believe in the calendar year of 2010, they did—and their calendar year and fiscal year were in sync.

Deborah Pawlowski: Jeff, maybe what you could do is just review some of the top customers over the last few years. , Chris, I think what you need to understand too is where the growth has been coming from over the last few years for the company. So, throw out a couple of customers, Jeff, and then talk about where our growth has been coming from.

Jeff Glajch: Sure. Chris, if you look at their top customers, they are all primarily utilities. There are 104 nuclear plants in the United States and their top customers would be someone like an Alabama Power or First Energy or Detroit Edison, for example, but, as Jim mentioned, the top customers one year will change to the next year, and because they're dealing with so many unique utilities, you're again not going to have a situation where one customer's going to have a significant amount of sales one year and then the next year. But, really, their major customers are the 104 utilities around the United States with nuclear facilities.

Chris McCampbell: Okay. So, you'll actually be selling direct to them and not being used by a Shaw or somebody like that?

Jeff Glajch: That's correct. Someone like Shaw would be a customer, but if you look at the vast majority of their sales, it is directly to the end-use customer.

Chris McCampbell: In terms of backlog, it seems like nuclear has a real long tail in terms of the business. Is this backlog just over the next 12 months that you're talking about or do they have much longer-term backlog that will gain visibility as we get down the road?

Jeff Glajch: The backlog that we've talked about is really over the next 12 months. I think if you look long term, when the nuclear industry starts looking at new-builds, then we're going to have a very long tail on it, but that's obviously out in the future somewhere, but in the immediate term, most of their projects are completed within a 12-month timeframe. There may be an occasional one that goes longer than 12, but most of them fall in that 12-month timeframe from order to shipment.

Chris McCampbell: Did you mention what your use of the remaining cash is going to be, as I may have blanked out on that?

Jeff Glajch: We did not, Chris. I mean, we still have in place our acquisition process. Obviously, we're going to take some time here to digest this current acquisition, but our expectation longer-term is that we would continue to look at other opportunities to strategically grow Graham.

Chris McCampbell: Okay, great. Thanks.

Operator: Thank you. Our next question is coming from Dick Ryan with Dougherty.

Dick Ryan: Good morning, guys. Jim, you mentioned in here there are approvals and certificates in the nuclear side, and I know you guys were going through your own efforts to get various approvals. Does any of that, or will any of that carry over to what Graham was doing or are you still going to proceed down the approval process for Graham?

Jim Lines: We will continue to have the Batavia manufacturing facility certified to provide equipment to the nuclear power-generating market. We feel the supply chain to the nuclear power market over the next several years will become very constrained. We expect to have equipment built in our Batavia plant, as well as expanding the production in Energy Steel in Lapeer.

Dick Ryan: What's the timing of the Batavia approvals?

Jim Lines: That's a long cycle. It takes about 18 months overall, and we've been in the process now for three to six months.

Dick Ryan: When you look at the backlog of Energy Steel, is it similar to what the rest of the energy infrastructure market has seen, you know, some degradation? Can you put perspective on what this $8 million has been maybe a year ago, or how that's trended?

Jeff Glajch: There is a bit of cyclicality, particularly if there's significant-sized projects that occur for Energy Steel in their business. It's not significantly different than it was 12 months ago, it may be a little bit lower, they had a bit of a spike in orders about this time last year, but $8 million is pretty consistent with where the business is normally at.

Dick Ryan: Who do they compete with? Is it internal groups at the utilities, or who else in the space provides competition for Energy Steel?

Jeff Glajch: We compete with a handful of companies that have the nuclear-quality program. They may be companies that produce heat transfer equipment, vessels, raw material suppliers, but there are a handful of companies like Energy Steel that we would compete against. I also want to just add a little bit on the business model here. It's like Graham's traditional business in that the order flow can be lumpy. The order sizes can be large when a large order is won, which can vary from quarter to quarter, and, too, like Graham, there's a fairly stable level of small orders, short-cycle orders that come in and out, order to shipment, within one to three months, and then what we would call major orders have a cycle time from order to shipment of nearer to six to 15 months, and those larger orders can be $200,000 to $2 million. So they can have some lumpiness in the business just as Graham's traditional business has had.

Dick Ryan: Is this predominantly domestic? Are there some international opportunities?

Jim Lines: Dick, the business currently is almost exclusively domestic, there are a few international projects that they have, but we believe longer term there may be some opportunity for the international markets for us.

Dick Ryan: Right. Thanks, guys. Congratulations.

Operator: Thank you. Our next question is coming from Eric Duncan with Moloney Securities.

Eric Duncan: Hi, good morning. Interesting acquisition, certainly. I was sort of curious just to sort of increase my knowledge on this. Would you characterize most of the current nuclear business, the 104 plants that you had mentioned, that Energy Steel is getting business here as a result of them upgrading these facilities or refurbishing them; is that fair to say?

Jim Lines: There are a couple avenues that drive demand for Energy Steel services. One would be that equipment wears out and needs to be refurbished. That's one leg of the demand. Secondly, the market looks to expand nuclear power generation and there may be re-rating or increasing the power output of an existing plant. That could entail requirements for new equipment, larger equipment, or analyzing existing equipment to ensure that it's satisfactory for the new power output of the plant. Then, it could be life extension of the facility. They have 30- or 40-year design lives. These plants were built in the '60s, '70s, late '70s, maybe early '80s, and the design life is coming due and they're extending the lives of these plants, which again could drive demand for replacing the equipment. So, it's three legs to the existing fleet of nuclear plants that drive demand for Energy Steel products.

Eric Duncan: Because there's not really any new construction that's slated in the near future here in the United States; is that also fair to say?

Jim Lines: Not in the immediate term, but we like the perspective that we think there's more that can be done with the existing fleet of power plants and how, together, Energy Steel and Graham can serve them more fully, and we also do believe long term that investment will be made in the US market for new plant construction, and we plan to be prepared and ready to fully access those opportunities, and, as was discussed earlier, a third growth leg is international.

Eric Duncan: Sure, that's one of my follow-up questions, is internationally, do you have any existing international customers that might lead to sales for Energy Steel or could you describe a bit more some sort of synergies that you think might be able to help you with this?

Jim Lines: Sure. Just a little historical perspective. Graham, up through 1995, had a nuclear-quality program and accreditations to provide equipment to nuclear power plants. We have installations for nuclear facilities, some in Asia, some in Eastern Europe, and of course in the North American market we have installations. Graham, as a business, has an international orientation. We're about 50% international on average; right now, about 60% of our sales are for international end use. Again, we think there's a strong synergy in combining Energy Steel and Graham, in that we provide access to the international markets that Energy Steel alone doesn't currently have.

Eric Duncan: So, do you feel that you do actually have some current customers that would have need for Energy Steel services, so to speak?

Jim Lines: We think there are opportunities in the near-term there, yes.

Eric Duncan: Lastly, I've been reading that energy demand right off the grid domestically in major cities like Philadelphia and Chicago, et cetera, is down considerably versus, say, two years ago, and I was curious as to whether or not you had any color for me on where we stand on the demand side from the grid because, obviously, that affects demand to upgrade these nuclear facilities and I'm just sort of curious to hear any of your thoughts there.

Jim Lines: I think an important point to bear in mind is this is a long-term investment and near-term demands or capacity requirements, say, over the next one or two years, while important, the construction cycle for a nuclear power plant is expected to be between six to eight years, maybe as long as 10 years, so by the time commercial operation begins, just for discussion purposes, it's 2020 when the next generation of plants could be built. That's quite a ways out. The capacity would have to be added to satisfy the demand. Yes, I recognize that our near-term demand declines, but this is a long-term multiple-year strategy and we see the new-build construction really taking an important role in our business five to 10 years out in the North American market.

Eric Duncan: Lastly, and I'll let you guys go, you'd mentioned there's going to be a charge in Q3 of $0.07 to $0.09, I believe it was. Are we then to assume that there will be no further charges in Q4 and beyond? Is that the extent of it?

Jeff Glajch: That's pretty much correct. There's a possibility that a small portion of this $0.07 to $0.09 could slip into the fourth quarter instead of the third quarter, but the vast majority of it will hit the third quarter. If there's a piece that hits the fourth quarter, it would be very, very small, to the tune of probably a penny or so at the most.

Eric Duncan: I'm assuming that your previous feelings about the second half of the year being stronger than the first half are probably still intact.

Jeff Glajch: That's correct.

Eric Duncan: Jim, great acquisition and best of luck.

Operator: Thank you. Our next question is coming from Steve DeNichilo with ACK Asset Management.

Steve DeNichilo: Hey, guys, how are you doing? What is the breakdown between manufacturing and service?

Jim Lines: It's all manufacturing.

Steve DeNichilo: Then, just given that you're working purely domestically and we haven't had any new nuclear plants being manufactured, what has been driving the cyclicality?

Jim Lines: There's a seasonality, in terms of electrical output is less during the spring and fall, and it's higher during the summer and winter, so the revamps of the existing plants have a calendar seasonality around when demand is less. It's not hugely cyclical, but there' is seasonality within the order flow and then the sales flow.

Jeff Glajch: I think a modest cyclicality you might run into occasionally is if there is a significant size project that occurs. Obviously, that can impact one period and then from a comparable standpoint not impact a period, say, a year later, but that tends to be kind of the one-off projects, similar to what Graham would have on a very large project.

Steve DeNichilo: Got it. So, there's a seasonal effect, but from a cyclical standpoint it's sort of steady existing retrofit going on with the current nuclear footprint in the US?

Jeff Glajch: That's correct.

Steve DeNichilo: Got it. Then, from a margin standpoint, have the margins been somewhat steady? Is there more competition in the market right now?

Jim Lines: I think the margins have been pretty consistent. There is certainly competition, but I think the margins have been pretty consistent.

Steve DeNichilo: Now, under Graham's umbrella, would you immediately be able to bid on international orders, new nuke builds?

Jim Lines: We could to a small degree. We feel we need to make investments in the front office of the combined companies to be able to actually execute more fully, either on the international front or for the new-builds in North America, but we could begin slowly. What's important to us is being able to execute and serve the customers as we feel we must serve them, so there is going to be some investment in personnel and developing the front office to be able to execute that type of work.

Steve DeNichilo: Right, and will there be any large D&A step-up with purchase price accounting of this?

Jeff Glajch: We don't expect that, no.

Steve DeNichilo: All right, guys. Congratulations. Thank you.

Operator: Our next question's coming from Dick Ryan with Dougherty.

Dick Ryan: Thanks. Just a clarification, how much of the business is nuclear? It says here a focus on it. Are they serving some of your core markets, Jim, oil refining, petrochemical, as well, or not?

Jim Lines: No, no. For all intents and purposes, it's only nuclear. In reality, it's 90 to 95% nuclear market. There's not, I would say, any crossover into Graham's traditional markets.

Dick Ryan: Okay, and one last one from me. When you look at their market, can you kind of size what their market share is or how big the opportunity is for their manufacturing?

Jim Lines: I'll frame it qualitatively. We think there's tremendous upside in not just the service and products provided to existing facilities, but moreover being able to supply equipment to the new-build. But, we do feel there's tremendous growth opportunity with this acquisition.

Dick Ryan: When you look at the companies they competed with, were they one of the larger ones in the four or five that you mentioned, or how would you size the competition?

Jim Lines: Let's say in the niche Energy Steel had been in, they were on par with the chief suppliers, the top four or five. There are other suppliers that may be larger in size and that's an area that we plan to participate more fully in with the combined business.

Dick Ryan: Great. Thanks.

Operator: There are no further questions at this time. I would now like to turn the floor back over to management for closing comments.

Jim Lines: Thank you, and we appreciate your time this morning. We're very excited about this acquisition and that we're here today in Lapeer, Michigan, with the Energy Steel team, and we look forward to updating you on our January call as to our progress. Thank you again. Happy Holidays.

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