Operator: Greetings, and welcome to the Graham Corporation Fourth Quarter Fiscal Year End 2012 Financial Results conference call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

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

Deborah Pawlowski: Thank you, Christine, and good morning, everyone. We certainly appreciate your time here today with the Graham Corporation Fourth Quarter and Fiscal Year 2012 conference call. On the call, I have Jim Lines, President and CEO, and Jeff Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and for the full year and will also provide a review of the Company's strategy and outlook. There are slides on the Company website that accompany the conversation today. If you do not have them, you can find them and the press release at graham-mfg.com.

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

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

Jim Lines: Thank you, Debbie. Good morning, everyone, and welcome. Please turn your attention to slide four. Steps taken during the downturn to expand our Company and diversify the markets served has enabled us to move quickly off the bottom of the cycle and generate $103 million of sales in fiscal 2012. Sales increased 39% compared with fiscal 2011. Sales year-on-year increased sharply and are up $29 million by adding the nuclear energy market through the acquisition of Energy Steel and the contribution from the naval nuclear propulsion program.

Also, our traditional markets provided approximately 25% greater sales in 2012 versus 2011. The 2004 through 2009 expansion cycle, where sales compound annual growth rate was 22%, had been principally driven by oil refining and petrochemical markets. As we enter this next expansion cycle, the markets driving our growth are broader and more diverse. We believe this diversity and the projected strength in our traditional markets can yield a higher growth rate this cycle.

Please turn to slide five. The light order pattern from the second quarter of fiscal 2011 through the third quarter of fiscal 2012, due to soft market conditions, inevitably shows up in future quarter sales. We began to experience this during the fourth quarter, where sales were $20.3 million, and it does carry into the first half of fiscal 2013. Also, an extension of the production schedule and delivery requirements for the large order for the Navy has delayed conversion of that order to sales. We also will see that throughout 2013, sales from the Navy order will be below our original planning basis.

Please turn to slide six. 2012 was a terrific year, demonstrating the value of the steps taken in the downturn to strengthen and diversify our Company. Organic sales expanded $17 million or approximately 25%. Energy Steel added $12 million greater sales than in 2011. Sales were split fairly evenly, with 54% being domestic – please recall that Energy Steel and the work we are doing for the U.S. Navy are virtually 100% domestic – and 46% of our sales were to the international markets, where we had increases in sales to the Middle East.

We also have a stout power market segment that represented 28% of full year sales, and with our focus in renewable energy, such as geothermal and biomass to energy and from the addition of nuclear energy with the acquisition of Energy Steel, clearly we have a very strong power market segment within our business. While sales increased 39%, net income expanded 80% and came in at $1.06 earnings per diluted share versus $0.59 in fiscal 2011. The two-to-one dropdown is typical of the leverage in our Company.

Let me pass it over to Jeff now for greater detail on the financial results. Jeff?

Jeff Glajch: Thanks, Jim, and good morning, everyone. As Jim mentioned, revenue in Q4 was down $5.6 million, partly driven by the extension of the Navy project timeline, as well as timing of conversion of orders from Energy Steel. The lower revenue and utilization adversely affected margins and EPS. In addition, we took a $0.04 per share charge in Q4 to resolve a disagreement with the IRS relating to R&D tax credits from fiscal 2008 and prior. As a follow-up on the R&D tax credit issue, we also had tax years 2009 and 2010 separately in dispute with the IRS. Subsequent to the end of the fiscal year, we have settled those two years and there will be a small charge of $37,000 in Q1 of fiscal ’13 to settle those years. Now that they are resolved, we have no further items in dispute with the IRS.

Over the course of the years covered, even after the charges taken to earnings, we have benefited well over $1 million in R&D tax credits. One last point; in fiscal 2011and 2012, R&D tax credits have benefitted Graham by about $0.01 to $0.02 per share. Currently, the law has not been extended, so we’ll see if we have additional benefit in fiscal ’13.

On to slide nine. Gross margins in the fourth quarter were similar to those in the third quarter, below the levels that we have seen in the first half of the year. SG&A spending is down in Q4, driven by the lower sales level. This lower spending is despite our continued focus to add key resources in engineering to take advantage of what we believe is a long-term growth in our markets. Operating margins are down, again driven by the lower revenue and utilization.

Slide 10, you can see our cash position at the end of fiscal 2012 is nearly $42 million, down slightly from the end of last year. You may recall that cash in the first half of fiscal 2012 was down, due to timing; then in the third quarter, as expected, cash flow was very positive, making up for the first half’s cash usage. In Q4, cash flow would have been positive if not for one item. We had a prepayment of taxes of approximately $4 million in the quarter. This had no relationship with the R&D tax credit issue, but was simply a timing issue on cash taxes due. We continue to have no debt and expect to be generating cash going forward, all of which can be utilized for internal capital needs, as well as acquisition-related opportunities.

On slide 11, you can see in Q4 our orders were $42.3 million, our second highest quarter ever, only outdone by the third quarter of fiscal 2010 when we won the large U.S. Navy project. The order level in this quarter was approximately double what we have averaged over the previous five quarters. The growth comparative with the same quarter last year was almost equally driven by our organic business as it was by Energy Steel. As a side note, speaking of Energy Steel, we announced yesterday that we have secured our first nuclear order in China to provide ejector systems for four facilities currently under construction. We are quite pleased with this order as it takes advantage of Energy Steel's capabilities and reputation in the nuclear market, as well as Graham's capabilities in China.

While quarterly order levels can be quite variable, we generally expect a book-to-bill ratio above one in the near future and, as we have discussed on previous calls, would like to see an order level averaging closer to $30 million per quarter, rather than the $20 to $22 million that we have seen over the past year and a half.

On slide 12, as you can see, our quarterly order levels have stepped up nicely, as have our full year order levels for fiscal 2012. Orders in fiscal 2012 were very similar to fiscal 2008 and 2010. You might recall fiscal 2008 was the peak order year in our last up cycle and fiscal 2010, as I mentioned before, included the U.S. Navy order.

On slide 13, you can see our backlog on March 31st is a record for Graham, at nearly $95 million. We believe our diversification strategy, namely adding Energy Steel and refocusing on the U.S. Navy and, hence, expanding our addressable markets, has allowed us to grow backlog despite what we feel as only being in the early stage of a recovery in our historic markets of refining and petrochemicals. The Navy project, as well as two large domestic nuclear projects in our backlog, in aggregate, makes up over a third of our backlog. Because these projects have an extended conversion to revenue time period, we believe 70% to 80% of this backlog will convert to revenue in fiscal 2013. This is lower than our long-term average of around 90%.

On slide 14, as we have mentioned, we have expanded our addressable markets. If you look at our backlog today with that at the end of fiscal 2009, just three years ago, you can see how the addition of Energy Steel and the Navy has expanded our market opportunities. In March 2009, the last time that we exceeded $100 million in revenue for a fiscal year, we ended the year with a backlog of $48 million, and over 80% of that backlog was in the refining and petrochemical markets. Today, our backlog is nearly double that level. Of the dollar amount, the backlog in refining and petrochemical combined is only a few million dollars larger than it was in March of 2009, or about $40 million in total. The power and others segments have grown from just below $10 million in fiscal 2009 to over $50 million today. Since we believe that the refining and petrochem markets appear to be in the early stage of an up cycle, we believe that there is a lot of runway for growth over the next few years.

Jim will now provide the view on our end markets, as well as fiscal 2013.

Jim Lines: Thanks, Jeff. It is encouraging that orders lifted back to the peak of 2008 and came in at $106 million. In fiscal 2010, where orders reached $108 million, that included the large $25 million plus order for the U.S. Navy; therefore, the underlying core business was about $80 million. Quarterly order rates were soft during the past several quarters, but bidding activity remained high. We had commented during the past few conference calls that the bidding pipeline had been building and we had a number of projects close in our fourth quarter, where bookings came in at $42 million.

I am pleased with where we are for entering this next expansion phase in our markets. Our traditional oil refining and petrochemical markets are improving, the benefit of a strong power market segment is clear, and the work for the U.S. Navy continues to proceed well, with considerable upside to take on more of that type of work.

Please go to the next slide. Looking at the fourth quarter in great detail, please note the power segment was approximately 30%, with Energy Steel adding just under $13 million. Orders from our traditional markets were just under $30 million, and notably, approximately $9 million was for ethylene-producing facilities, suggesting that petrochemical activity appears to be picking up. I would also like to point out that with the improved health in our markets, order selection and price management discipline did yield improved margins on average for orders won in the fourth quarter versus the margin of our backlog entering the fourth quarter.

Next slide. As we think about our traditional markets, oil refining and petrochem, and think about them geographically, we see a strong projected demand coming out of Asia in oil refining, petrochemicals, fertilizer, and power generation, and we are anticipating a strong multi-year investment program in that region by our customers. In the Middle East, significant investments for new capacity are planned, as they monetize their natural resources in Saudi Arabia, Kuwait, Iraq, and elsewhere in the region. We have won some work for Iraq as they rebuild their refineries. That's now in our backlog.

In North America, the change in the price of natural gas does appear to have traction toward investment in new petrochemical facilities or expanding existing petrochemical facilities. We are involved in bid work today for new fertilizer plants and new ethylene plants in North America, something that hasn't happened in more than a decade. So that's very encouraging. As we look towards Canada, in particular, Alberta, we're seeing upgrading investments start to move off their stop that took place in 2008. We're involved in a number of projects that we are bidding for new upgrading capacity, so that's very encouraging.

And in South America, as we think about the investments that are planned in Colombia, Brazil, Venezuela, and elsewhere in Latin America, we're very encouraged by the outlook there. While the pace of projects in that region is particularly difficult to predict, we are encouraged by the level of bid activity.

Next slide, please. In power generation, the acquisition of Energy Steel has really been terrific for us. As Jeff pointed out, if we look at our backlog, how that has lifted our backlog significantly, and if we look at our sales mix from the power segment, our new orders mix for power segment, it's very appreciable, and we have a strong leg there. As we look at Energy Steel and the nuclear market, we have shifted that business very quickly toward new construction, which we felt was an important growth leg. We have won work for new construction in North America. Energy Steel has about $15 million of work for U.S.-based new construction in their backlog.

Importantly, we secured, early in the first quarter of fiscal 2013, an order for four nuclear power plants that are under construction in China, and that's very encouraging. And, moreover, there's more Energy Steel is able to do in service with the existing utilities in North America by adding additional products, which they have been working on. We're very encouraged with that acquisition, the strength of that business and the strength of the market to provide a very nice level of new business and profitability into Graham.

And, also, renewable energy, biomass to energy and geothermal power plant production is still active around the world. We have a number of bids that we're working on. Last year in fiscal 2012, almost $5 million of geothermal work was won and converted in 2012 for Asia. That's very encouraging.

Please advance to the next slide. As we look at the Navy program, the current order we have, which is in excess of $25 million, is progressing extraordinarily well in our view. Yes, it is true and as we announced a few weeks back, that order has had production schedule and delivery requirements pushed out. That's simply a timing issue and how that order converts from backlog into sales. I can share with you that we're in control of our costs, with the order's direct costs being at or below what our judgment was when we secured the order. The Navy and the shipyards continue to compliment on our execution, our ability to identify and mitigate risk with such a complex project; the quality of our people, and the quality of our workmanship. They're also very happy with our commitment to adhering to the complex specifications that we must comply with and our strong values towards customer satisfaction. They have taken note of that, and have complimented us on that.

We have secured and completed concept engineering only orders for submarine programs. We did that in 2012. We do expect more of that type of work in fiscal 2013. I am very pleased with the work our team is doing with our naval nuclear propulsion strategy, and I am confident that, in our future, the Company will have a very consistent and strong naval market segment.

Please go to the next slide. We really have a very strong backlog of profitable work as we enter this current fiscal year. The guidance, at this point, is for revenue to be between $105 and $115 million, with Energy Steel providing about 20% of that revenue. Gross margin, at this point, is projected to be between 28% and 31%, with SG&A between 15% and 16% of sales, and a tax rate between 34% and 35%.

As we think about the range that I've mentioned and the quality and size of our backlog, there's potential to push to the upside of our guidance and perhaps beyond. That's centered on the conversion timeline of the Navy order and the Westinghouse orders, along with, of course, the level of new orders over the next two quarters. While there is some risk to the downside, I think it's very minimal and it's mostly, again, tied to conversion of those two orders, but I think the likelihood is very low. As we assess our markets and their projected strengths, coupled with our capital available to drive organic and acquisition growth, management believes doubling again the size of our Company across the coming expansion cycle is a reasonable target, and that is what we are planning to do.

Please go to the next slide - Our priorities and challenges for the coming year. We are making investments today in personnel ahead of strong demand. We did that last year and we're continuing that through fiscal 2013. I think that's important because what we don't want to do is what happened in the last cycle, grow more slowly than the market demand.We weren't ready to execute that level of business. So we brought in the resources and we're still bringing those resources in ahead of demand. That does have an effect on profitability. It did in fiscal 2012 and it will in fiscal 2013, but that's an acceptable trade-off to capitalize on the strong demand we're expecting in years 2014, 2015, and 2016.

Another challenge, as I indicated just a moment ago, is the conversion timeline for the Navy and the Westinghouse orders. That can have an impact on fiscal 2013, but if you look at it as a whole, it's really just a timing issue. Those orders are very profitable, they're good business for us and the backlog conversion to sales can be difficult to predict. But our team is focused on staying on track, keeping our customers on track and converting that high quality backlog to sales and profits according to our timelines.

Our priorities are to advance market share in our traditional oil refining and petrochemical markets, maintain our strong position in oil refining in China and elsewhere in Asia, continue to have a very strong, if not a leading position in the Middle East with those investments in Saudi Arabia, Iraq, Kuwait, markets that Graham historically has had a very strong position in, and also dominate the North American market with the applications that we serve. Also, continue with our strategy to strengthen Energy Steel and expand the addressable opportunities that they're going after, and continue and remain committed to the naval nuclear propulsion program. As I said earlier, I'm extremely excited about that. That's not a program that brings business in very quickly, but the investments we're making now are clear to me they are right, and we will, in our future, have a very strong navel leg in our business.

Also, we have an active acquisition program and, again, a good amount of available capital on our balance sheet to deploy in that manner. We'll continue to look for acquisitions to strengthen Graham, broaden Graham, and expand our level of sustained earnings, but also be patient. It's very important at the start of a recovery. We didn't necessarily do this well last time. We got a little eager in the 2005 timeframe, and we saw a dip in our gross margins because of the aggressiveness with which we took new business. We were not focused on margin and order selection. We're being more disciplined this time to ensure the orders we're winning. We're keeping an eye on the pipeline and what's coming to ensure we're not dilutive in using our resources, and we're going to maximize the value we can create for our customers and within the business.

With that, Christine, please open the call for questions.

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

Our first question is from Mark Tobin with Roth Capital Partners. Please proceed with your question.

Joe Bess: Good morning. This is Joe Bess filling in for Mark. My first question, Jim, is… in your press release, you talked about the first half of 2013 kind of mirroring what the back half of 2012 looked like, which would imply that the back half of 2013 would see some meaningful growth. Can you speak a little bit more about that, and is that due primarily to some larger naval shipments being expected in the back half?

Jim Lines: Not so much tied to that. If you look at the order pattern and, going back to the first and second quarters of fiscal 2012, that begins to bleed through as revenue in Q4, Q1 and Q2. Again, inevitably, the softer bookings show up in lighter sales and that's showing up in the first half of the year. The strong bookings we had in our fourth quarter, supplemented with the conversion of the Navy order, begin to expand the sales and profitability of the business in the second half. We're expecting levelized revenue from the Navy order throughout the year, but, principally, the third and fourth quarters are benefitted by what we see in our pipeline of new orders to win and also the strong fourth quarter bookings that we had of $42 million.

Joe Bess: Okay. And then with regards to the pricing of contracts that you received in the fourth quarter, is that what you're seeing right now in the first quarter of 2013? Are you expecting these levels to continue from here on, or do you think this is sort of irregular?

Jim Lines: No, I don't necessarily think it was a point in time pickup in margins. I do believe our markets as a whole are becoming more active, are becoming healthier and more projects are available at any given point in time. That provides the opportunity to be a little more discerning on order selection and also stick with our firm price discipline. There are options to select the better of the orders that are available, and that's how we saw 2005, 2006 and 2007 play out. We're applying that same discipline and experiences that we had and, anecdotally, the fourth quarter did have a step up in margins. I don't necessarily feel that was just an occurrence in the fourth quarter.

Joe Bess: Okay. And the last question… You talked about the opportunities in your pipeline. Can you give a little bit more color around that, and if there's any sort of size around the contracts that you're bidding on right now and any potential timing of any key orders that could fall into 2013?

Jim Lines: Sure. One of the things that we had experienced, that happens during the downturn, is the order sizes were smaller, on average. We're seeing the order size begin to become larger and that does have a benefit of getting more leverage out of our engineering resources per dollar of order value. So we are seeing larger orders and more of them.

If we think about just stepping through the markets we're serving, we're expecting some business to be awarded in 2013 for the naval nuclear propulsion program. They can vary between half a million to $3 or $4 million, and there's a couple of those that we're hoping we'll break and be successful on in the coming year.

In the refining space, there are a lot of good opportunities in the $2 to $5 million value range - in China, U.S., South America, and Middle East, areas that we've been successful in securing that work. For our condenser business, there's a lot of activity in renewable energy, as well as in the petrochem and refining markets. And, if I would point to the fourth quarter bookings of $42 million, within that was $9 million of condenser orders that were for ethylene plants. An ethylene plant has an average selling price of the condenser orders of somewhere between $2 and $5 million, so as we see that begin to become more active, we can expect more of that type of opportunity to become available and, hopefully, we can secure it.

So, that was a long-winded answer to an easy question. We're seeing the order size increase and the number of orders expand; both very good.

Joe Bess: Great. Thank you for the color.

Jim Lines: You're very welcome, Joe.

Operator: Your next question comes from the line of Chase Jacobson with William Blair. Please proceed with your question.

Chase Jacobson: Hi, good morning.

Jim Lines: Hi, Chase.

Chase Jacobson: Just quickly, Jim, you mentioned when you were talking about the guidance to reach the high end, it'd be pretty critical to see the conversion of the Navy project and the Westinghouse project. I just want to make sure that that comment is based on the natural progression of those projects and has nothing has to do with either regulatory or funding issues. Is that correct?

Jim Lines: That's correct.

Chase Jacobson: Okay.

Jim Lines: We're not seeing anything in the marketplace to suggest those orders are at risk. It's just the pace at which we're allowed to execute them.

Chase Jacobson: Okay. That's good. And then I'll just take another shot here at the margin and pricing question. Can you maybe just give a little bit of color on how the pricing has looked in the second half of the year compared with the first half of the year? A lot of the markets are getting better, like U.S. petrochem, and I know you can be more selective but, at the same time, are you seeing your competitors maybe be more aggressive to take advantage of markets that have been weaker?

Jim Lines: One general comment I'll make about our competitors. They disappoint me in that they don't recognize the market environment, and they don't change their pricing patterns. We're different from our competition and we do that. So we haven't seen our competition really change in regard to bottom of the cycle, top of the cycle. It appears to us they have standard pricing formulas that they use; whereas, we don't allow a standard pricing formula. We price situationally and are opportunistic where we can. In general, we're seeing the profitability of our smaller business, the business that we refer to as short-cycle, which is about one third of our business on average, that margin has begun to improve and that's particularly through price strategy. Those are quick turn orders and we've put in place some price strategies there that have helped.

In regard to the larger projects, the two thirds of our business, again, that's our situational price discipline, understanding what the situation is, being opportunistic where we can and being aggressive where we must. On average, we're seeing that come up compared to six to 12 months ago in terms of the average margin of what we're winning versus what's in backlog. At the start of the fourth quarter, what we won is a bit up from what the average of the backlog was going into the fourth quarter.

Chase Jacobson: Okay. That's helpful. And when you look at your pipeline, can you give us any color around how much of the pipeline is related to Greenfield projects versus upgrades or expansions or changing feedstock or anything like that?

Jim Lines: Sure. It does get a little foggy with respect to Brownfield, Greenfield, particularly in Asia. And then, quite honestly, we don't really care, because the size of the opportunity is really no different, whether they're expanding a Brownfield site for an additional 200,000 barrels per day or they're building a Greenfield. What tends to come into play is one moves faster than the other; expansion moves faster than the Greenfield. But if I thought about it just in an overall comment - China, in particular, is new capacity with some expansion, so some Brownfield, and elsewhere in Asia and in South America, they are really expansions of existing sites, but I would categorize them as new capacity. They're not revamps in a classic sense; they're added capacity. I guess that's a better way to describe it.

Chase Jacobson: Okay. All right, that's helpful. And then the last question I'll ask is just about Energy Steel. It was good to see you break into the China nuclear market. It looks like there's a lot more opportunities there. Is there opportunity in any other international markets for that business at this point?

Jim Lines: Well, certainly, yes, and I will just take us back to a few conference calls ago. There was a lot of opportunity in the nuclear market. What we have elected to do is focus on where we thought we could win and where we could win quickly and win profitably, so we're taking our usual disciplined and measured approach. But to answer your question, there's a lot of opportunity out there globally. We still need to develop strategies to be successful for some of those opportunities.

Chase Jacobson: Okay, that's great. Thank you.

Jim Lines: You're welcome.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question, press star, one, on your telephone keypad. If you are using a speakerphone, you may need to pick up the handset before you press the star keys.

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

Joe Mondillo: Good morning, Jim and Jeff.

Jim Lines: Hi, Joe.

Jeff Glajch: Morning, Joe.

Joe Mondillo: First question, just real quick, in terms of the Navy orders, how much of that $25 million is left, and what are you expecting in 2013?

Jim Lines: Of the Navy order, in rough numbers, about 70% to 75% is left, and our financial plan is converting about 25% to 30% of that order. We are aware there could potentially be a change order coming from the Navy that could slow that down. No impact other than delayed revenue conversion. We would expect a change order for that and additional money for the change order because there's different scope, change in scope, that gives you a sense for what our plan is. But as we indicated, conversion of that backlog to sales has been not predictable.

Joe Mondillo: Okay. And in terms of the Navy potentially coming in and changing the order, how are you looking at that 20% to 30% versus that possibility of them coming in? If they do come in, would there be downside to the guidance?

Jim Lines: Well, we have modeled some of that into our planning scenarios and reflect that generally in the guidance that we've given. I guess I'll phrase it differently… our guidance is not overly aggressive and isn't necessarily predicated on the Navy order according to plan. The Navy order going to plan or maybe above plan pushes us up to the upside and through the upside, but we've come out with a balanced initial guidance that reflects all the moving parts that are in our business.

Joe Mondillo: Okay. And just switching to your oil refining opportunities, where has a lot of that being coming from, or at least, I guess the orders in the fourth quarter seem to be pretty strong. Where are you seeing the strength there?

Jim Lines: Well, we picked up a couple of nice orders in the fourth quarter that were for China, and we announced yesterday another order for China for the refining market. So, we've picked up about $9 million of new orders for the Chinese refining market in the last two months. We have some work coming up outside of the China market, as well as inside the China market, over the next six months, in Alberta, in the U.S., for revamps. There's some bid activity in South America and in the Middle East and elsewhere in Asia that we would expect to see closed over the next six to nine months. So geographically, in the refining market, we're seeing a pretty healthy environment for project activity.

Joe Mondillo: All right, sort of all around geographically?

Jim Lines: Yes.

Joe Mondillo: All right. And then, I don't know if you have opinion on this or sort of a viewpoint, but in terms of oil prices coming down so aggressively over the last month or so, how are you looking at that affecting your refining customers, and what are they saying?

Jim Lines: Well, we're watching that and so is our customer base. I sort of draw a contrast to where we were in 2003 and 2004. If we thought about where oil was at that point in time, it was between $25 and $30 per barrel. We had the strongest investment wave in the refining space in my career at Graham, which is almost 30 years, as oil went from that start point up to the $60s and got to about where it is today. As we hear from our refining customers, depending upon what they're refining, you don't necessarily need $100 per barrel to be profitable. They model their investments for the long term and, from what we're hearing, they are modeling below the market price today, in general.

This is a long-viewed answer, not a this-week answer. What's happening? Demand is increasing globally. Investments have to be made to keep up with that demand. Feedstock is less expensive for low cost, obviously low cost poor quality crude; that drives investments by our refiners to be able to process the crude oil that's less expensive. So I think, as oil vacillates, it may move down further. I'm not overly concerned about it because the long-term view is demand has to be satisfied through incremental capacity, and that's not abating; demand is not abating globally.

Joe Mondillo: Okay, great. And then last question just in terms of the balance sheet is still pretty strong with a healthy cash position. I'm just wondering about your updated thoughts on the cash position and potential uses of cash?

Jim Lines: Well, we have two principal uses of our capital. Actually, we have one use, which is to grow our business. Then, the two avenues to grow our business are to invest to drive organic growth and to invest to drive growth through acquisition. We have an active acquisition program. We'll be as methodical and as disciplined as we were with the Energy Steel acquisition. And with regard to investments for organic growth, we'll make those as we feel appropriate and we're assured of the demand profile from the markets we're expanding into. But the main use of our capital is to grow our business to provide improved level of sustained earnings.

Joe Mondillo: And how is the pipeline for acquisitions and just how challenging is it in these sort of volatile and uncertain times?

Jeff Glajch: Joe, this is Jeff. I guess, I'll contrast it to when we were looking for Energy Steel, which was during the calendar year 2009-2010 period, which, for other reasons, was volatile. It's not a big issue from a volatility standpoint. We're not overly concerned about everything else that's going on. There are a number of opportunities in the pipeline, as there were in that time period. It's really just a matter of making sure that we work our way through those opportunities, understand what makes sense for Graham and make sure we get a fit as we did with Energy Steel. We feel that the extra time that we took to ensure that we found the right candidate in Energy Steel has proven itself very nicely since we've acquired them. We'd like to go down the same path with the next opportunity.

Joe Mondillo: Okay. Great. Thank you.

Jim Lines: You're welcome.

Operator: Our next question comes from the line of George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: Jim, I wonder if I could amplify the previous question on a macro basis, besides the oil, but also with the current outlook for more of a slowdown on a global basis and concerns of financial institutions in Europe, et cetera, and banks, do you see that having any impact on the type of orders that you're building up here in terms of their execution, and anything about how that could affect financing relative to the clients you're doing these big projects for?

Jim Lines: I think that factors into the overall equation. It hasn't been an impediment at this point in time. Many of our customers, certainly in international markets, are state-owned businesses, and of the multi-nationals that we work with, they're well capitalized, although they do need financing for their projects. The fundamentals for making the investments are right. The demand is not changing. So we're very optimistic about that.

But what I can share you with you is we have a very strong conviction in the direction of our markets. While in the middle of the downturn, still today, with some uncertainty as you spoke to, we're still making investments in our infrastructure to capitalize on what we firmly believe will be a strong wave of opportunity over a multi-year expansion, and we're getting out in front of it. We weren't able to do that last time, but we're able to do it this time. So with conviction, going forward with our investment, we're keeping our eye on the fragility of our markets and the investment climate, the credit market, but we're certain that the underlying macroeconomics of demand are expanding and that demand has to be satisfied. To us, it's just a timing issue, but we're going to be ready for that time.

George Walsh: Yes. Well, I agree with that, Jim, and I think two interesting slides relative to the presentation in that, for a small company, you're positioned to take advantage of the backlog that you've built up and also relative to being able to handle any delays or changes in the demand outlook, short-term affecting the cycles. Slide 14 was very interesting relative to your backlog growth; that speaks well to your positioning of the Company and also the balance sheet. That's remained very strong for a "small company" and I think that speaks well to your position to take advantage in the future of what you're looking at and, as you're saying there, can eventually get to that $200 million level.

And just with reference to that, if and when you get to that type of level, do you see a significant margin expansion, or would you more or less be at this 30% gross margin level when you get up to that kind of revenue stream?

Jim Lines: I would expect, George, it would be bounded as it's currently bounded today. I think about our margins as bottom of the cycle, being in mid to upper 20s, top of the cycle, mid to upper 30s, I would expect just to be bounded by that through the cycle of the market from trough to peak. Where we're looking and what we think the operating model and the sales model require for the strategies that we have to acquire or expand into new markets, provides a similar profile to what Graham has been in the last four or five years.

George Walsh: Okay. And just one specific question, your depreciation and amortization for fiscal year 2013, any estimate on that?

Jeff Glajch: In fiscal 2012, our depreciation and amortization was about $2 million.

George Walsh: Right.

Jeff Glajch: Over $2 million. Wouldn't expect a dramatic change in that; maybe a little bit up in depreciation and amortization, perhaps down a little bit. We had a little bit of amortization related to the Energy Steel acquisition slip into fiscal 2012, so there will still be some there, but some of it will go away. So, I don't see a huge change there, maybe a little bit of a step-up, but relatively small.

George Walsh: Okay, but still good EBITDA and cash flow there? Okay.

Jeff Glajch: Absolutely.

George Walsh: Great. Okay, thanks a lot.

Jim Lines: Thank you, George.

Operator: Our next question comes from the line of Tom Lewis with High Road Value Research. Please proceed with your question.

Tom Lewis: Hey, good morning.

Jim Lines: Morning.

Tom Lewis: Just wanted to ask one question, kind of following up on your comment about competitive pricing behavior at this point in the cycle. I was wondering if you could elaborate on how important is it to be the low bidder. I would think that, with some of the more highly engineered things that you do, you don't necessarily have to be the low bidder to win the business. Could you flesh that out for us?

Jim Lines: Sure. In general, I think your observation is on the mark. Where we focus our efforts is where the application of our equipment is very specialized, the cost of failure to the user is extraordinarily high. The execution of the contracts is extremely complex, and that tends to drive a value-based purchase decision. That's where we believe we will stay, because we create a lot of value and we believe we can extract a lot of value through our selling process. But there are times, in particular during the bottom of the cycle, where buyers aren't as discerning as we see them ordinarily. We saw that the last couple of years; and we saw that in prior down cycles, so it wasn't a surprise to us. We do smart things to navigate through that down cycle and defend our market position to expand our market share where we can, but once we get through the down cycle into the recovery, buyer behavior tends to normalize to what we like and what we typically do well at.

I don't know if that answers your question.

Tom Lewis: Okay. Thanks.

Jim Lines: You're welcome.

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

Chris McCampbell: I'm struck by the tone and the confidence you all have relative to where the stock price is right now. And I know that you have tended to keep your powder dry in terms of acquisitions, but where are we on share repurchase at this point?

Jeff Glajch: Sure. Chris, this is Jeff. We have a share repurchase program in place that has been authorized for a couple of years. It has the ability to repurchase up to a million shares. We've repurchased about 360,000 or so. It is a potential use of cash. As Jim mentioned, our main use of cash is to grow the business, but it is certainly something that we consider at times; particularly if we see, as we have seen here recently, a bit of dip in the stock price, we potentially can be opportunistic.

Chris McCampbell: Okay. Well, congrats on the progress, guys.

Jeff Glajch: Thanks, Chris.

Jim Lines: Thanks, Chris.

Operator: Our next question is a follow-up question from George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: Jim, could you just update, in general, how you're looking at potential mergers or what you're looking at, and if it's something where you're really not that active at this point, or is it something that you're eager to do with the current environment?

Jim Lines: It would be fair to indicate, over the last four to five quarters, we digested Energy Steel.

George Walsh: Right.

Jim Lines: But we have kept our eyes open. We do have our acquisition programs still active. Now that we've tucked in Energy Steel and we're about a year and a half into that, we are now more focused on looking externally for growth, but we do have a lot of opportunity with the businesses that we have to grow them. Acquisitions are still, as we have said previously, centered around engineer-to-order businesses, serving the energy market, businesses that have a long sales cycle, businesses that enable us to create what we believe is a lot of value for our customer and that we believe, in exchange, we'll be rewarded through that with margin or capture ratio. And we're looking, again, at businesses that are in the revenue size of $20 to $60 million.

We've looked above that, and we've looked below that, but we tend to think of that as the right spot for the next acquisition. It could be in North America or it could expand our footprint outside of North America, but the typical attributes that we're looking for are as I just described, which are consistent with how we have described them over the last several years.

George Walsh: Okay. On a one to 10 scale, I'm just trying to pin you down a little bit about the emotional factor or the conditions…like you said, you just integrated Energy Steel, so are you just really laying back and just, well, if something comes along, you'll do it, or is it something where you feel the atmosphere is good to pick something up in here?

Jeff Glajch: George, this is Jeff. We are certainly looking, as we did with Energy Steel. It's a long process.

George Walsh: Okay.

Jeff Glajch: I wouldn't say that we're waiting for something to drop in our lap, and I also wouldn't say that we're urgently feeling like we have to do something immediately. As it was with Energy Steel, it will take some time, I suspect, just because we want to make sure we find the right company. But if the right company were there today, then we would move forward very quickly. We just want to make sure we find the right fit for Graham.

George Walsh: Okay. All right, great. Thanks a lot.

Jeff Glajch: Thanks.

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

Jim Lines: Thank you, Christine, and thank you, everyone, for your time and attention today. Again, we're very pleased with our results for fiscal 2012. We feel our team did a great job to execute a tough business environment and delivered very fine operating results. We're very excited about where we are as we enter fiscal 2013. In particular, as we look beyond 2013 into the height of the recovery a couple of years out, our Company's positioned extraordinarily well, I feel. We're different from where we were when we entered the last expansion cycle in 2005, and we're expecting to capitalize strongly on that growth cycle. And, again, our intent and our planning is to double the size of our Company.

I look forward to updating you at the end of July at our annual meeting. Thank you for your time. Have a great day.

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.