

Operator: Greetings and welcome to the Graham Corporation Third Quarter Fiscal Year 2015 Financial Results Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I will now turn the conference over to our host Ms. Deborah Pawlowski, Investor Relations for Graham Corporation. Thank you. Please go ahead.

Deborah K. Pawlowski: Thank you, Melissa, and good morning, everyone. We certainly appreciate your time today. You should have a copy of the news release detailing Graham's results that was across the wire 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. I should also note that we did put out a press release yesterday after the market close regarding our dividend and new share buyback program.

On the call with me today are Jim Lines, our President and Chief Executive Officer; Jeff Glajch, our Chief Financial Officer; and also Karen Howard, Investor Relations. Jim and Jeff will review the results of the quarter and the first nine months of fiscal 2015, as well as our outlook. We will then open up the line 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 on the call. 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. These documents can be found on our website or at www.sec.gov.

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

James R. Lines: Thank you, Debbie. Good morning, everyone. I will begin our prepared remarks on slide three. Our strategy is straightforward. It is to expand earnings by increasing market share, reducing the impact of cyclicality, and deploying capital to strengthen and diversify our revenue streams. We are committed to capturing greater market share, regardless of market conditions. Be it refining, petrochemicals, power or naval markets, our position in these key markets can be stronger and market share greater. We have expanded execution capacity in production and order processing in order to support this strategy.

Our team has done well to more than double what we refer to as our predictable base. By developing a higher level of predictable base business, we have expanded earnings throughout an economic cycle and dampened the effect of the cyclical pattern of refining and petrochemical markets, which will reduce earnings volatility during market contraction phases.

Cash flow from operations is consistently strong, and we have more than \$60 million of capital on our balance sheet to fund organic and acquisition growth investment. Strategy and resources are concentrated on doubling our business to exceed \$200 million in revenue. That is what we set as the next major milestone for our long-term growth trajectory.

Please refer now to slide four. Third quarter results were solid and in line with what we expected. Revenue for the quarter was \$33.6 million, up 44% from the same period last year. I must take a moment to highlight that this level of revenue and also what was achieved in the second quarter is a direct result of investments made ahead of demand. Timing was perfect and execution of investment decisions for personnel, equipment and facilities were accomplished extremely well by our teams.

Our revenue was driven primarily by conversion of oil sands and petrochemical projects destined for North American end users. You may recall in the first half of fiscal 2014, there were strong orders for the North American chemical industry, and several of those orders were in production during the third quarter.

Net income was \$4 million or 12% return on sales. The positive effect of our expanded capacity and corresponding increased throughput translated into top-tier financial performance. This level of profitability illustrates operating leverage and corresponding profit drop-down from incremental revenue as a result of the previously-mentioned investments. Fiscal 2015 revenue and gross margin guidance are reaffirmed to remain within ranges provided in October.

Moving on to slide five, refining industry sales were \$12.8 million, modestly above one third of total sales. Replacement and upgraded equipment were significant in that total. Our global installed base is vast and provides substantial recurring revenue opportunities. Greater than 50% of sales to refining markets were replacements or upgraded equipment.

Chemical industry sales were \$9.4 million, of which the vast majority was for North American new capacity stemming from investments driven by abundantly available low-cost natural gas. Power industry and other commercial industrial markets, that include work for the U.S. Navy, each comprised 16% to 18% of quarter sales. Domestic sales were up 26% to \$18.3 million as a result of the strong chemical industry new capacity investments I just mentioned.

Please move on to slide six. This slide depicts the progression of increasing the level of predictable base, less cyclical sales in our business. Our team has moved this from what had been approximately \$20 million per year to greater than \$50 million for the trailing four quarters ending this past December. Strategies for aftermarket, short-cycle orders and the long-lived orders for the Navy each contribute to this improvement.

The impact of these strategies benefits profitability throughout economic cycles. However, during cycle contraction is when the value of this improvement is most important. Earnings volatility will be reduced, enabling us to continue to invest in growth, just as we did fiscal 2010 through fiscal 2013, during that market pull-back.

I'm going to pass the discussion over to Jeff to go through the financial results in greater detail. Jeff?

Jeffrey F. Glajch: Thank you, Jim, and good morning, everyone. Starting on slide eight, as Jim mentioned, Q3 sales were \$33.6 million, up 44% compared with \$23.4 million in last year's third quarter. The sales split was 55% domestic and 45% international compared to last year's third quarter which was 62% domestic and 38% international. Gross margins were up 400 basis points to 30%. EBITDA margin was 18% for Q3, up from 11% last year. Q3 net income and EPS was \$4 million and \$0.39 respectively, compared with \$1.4 million and \$0.14 in last year's third quarter.

Looking at our year-to-date results on slide nine, year-to-date sales were \$97.7 million, up 28% from \$76.1 million in the first nine months of last year. Year-to-date sales are more heavily weighted toward domestic opportunities this year at 64% domestic, 36% international, compared with 57% domestic and 43% international last year. Gross profit has increased 19% to \$29 million, though gross margin is down 230 basis points to 29.7%. The higher gross profit of course is driven by increased volume, while the lower gross margin was impacted by a very strong product mix in the first half of fiscal 2014.

SG&A was \$13.6 million in the first nine months of the year, up only 5% when compared with the first nine months of last year, as we have leveraged our overhead base quite well this year. SG&A as a percent of sales is at 13.9%, down from 17% last year. EBITDA margin increased 40 basis points to 17.6% in the

first nine months of this fiscal year, primarily driven by the improvement in SG&A leverage, which I just mentioned. Net income has increased 35% to \$10.6 million, up from \$7.8 million last year. EPS was up to \$1.04 from \$0.78 last year.

On to slide 10, as Jim mentioned, our cash position is quite strong at \$62.5 million, up from \$61.1 million at the start of the fiscal year, though down sequentially from \$64.8 million at the end of the last quarter. This near-term decrease is simply timing of projects, and we expect that to reverse in the fourth quarter. We expect to have a strong cash flow in the fourth quarter.

As you can see, we've also increased our cash position over the first three quarters of this year, despite having spent \$5 million in capital, most of it to expand our Batavia facility. The benefit of this expansion has already been seen, as we have increased loading in our plant as this year has progressed.

With our strong ongoing cash generation, yesterday, our Board of Directors authorized the doubling of our dividend to \$0.08 per quarter, or \$0.32 per year. This is our third consecutive year in which we have increased the dividend, which was \$0.02 per quarter prior to 2013 and is now up four-fold from that to \$0.08 per quarter. Additionally, the Board of Directors authorized a share repurchase program of up to \$18 million.

We believe that these two capital utilization announcements confirm the strength of our conviction with our long-term strategy, the solid nature of our balance sheet, and very importantly, the predictability of our ongoing cash flow. Even with the increased dividend and share repurchase program, we are very confident that we have sufficient capacity, whether it be cash or debt availability, to continue to pursue our acquisition strategy.

Jim will complete our presentation and comment on our outlook for the rest of fiscal year 2015.

James R. Lines: Thank you, Jeff. I am now on slide 12. We observed a change by our customers this past quarter that slowed the pace of orders. We felt this change by refining and chemical industry customers as the rapid, abrupt decline in crude oil pricing set in. We expect to experience ongoing order volatility from refining and chemical industries. We do not, however, expect much change from our power or naval markets.

Orders in the quarter were \$22.6 million, and they were equally balanced between domestic and international orders. Backlog declined sequentially by approximately \$11 million. Importantly, our pipeline of opportunities remains elevated and consistent with recent activity levels.

Moving on to slide 13, backlog is diverse and well balanced across key markets. While down sequentially, I am pleased by the quality and strength of our backlog. 37% of backlog is for refining markets, 23% for the chemical industry, 21% for naval markets, 11% for the power markets.

Backlog conversion is 70% to 75% over the next 12 months, 15% to 20% 12 months to 24 months out, and 5% to 10% beyond two years. Importantly, approximately one-third of backlog is from customers or markets not served five years earlier.

On slide 14, we confirm that revenue will be in the upper half of the \$125 million to \$130 million range. Gross margin will be between 30% and 31% for the full-year. SG&A will end the year between 14% and 14.5% of sales, and our tax rate is expected to be between 32% and 33%.

Melissa, please open the call now for questions. Thank you.

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Jason Ursaner with CJS Securities. Please proceed with your question.

Jason Ursaner: Good morning.

Jim Lines: Good morning, Jason.

Jason Ursaner: Obviously, there has been a lot of focus on oil, and you're very cognizant that the decline in prices has an impact on orders. Could you talk a little bit about what you see this doing to the long-term cycle? I'm not asking you to call a bottom on oil or anything like that, but as we see capital spending coming in at some of the major oil companies, will this push out some of the cycle you've been hoping to see, especially on the petrochem side? Or is it more open-ended at this point?

Jim Lines: To be candid, this is so recent. The last quarter has been rather dramatic if we think about the drop in oil and it was quite precipitous about two months earlier. We're all trying to get a better understanding of the near-term and long-term implications of this. If I think about the underlying fundamentals, what drives demand for Graham, I don't see change in the long term.

Energy intensity, growing population, developing emerging economies, feedstock diversification – all drivers in our petrochem and refining markets – still are intact long-term. Also importantly, Jason, as it relates to Graham and the diversification strategies that we undertook three years or four years ago, we now are less concentrated in those two key markets with the addition of our naval strategy and with the addition of a stronger power segment. But I know for this question most of the focus is on our oil and petrochem markets.

While clearly there are some near-term headwinds that we're all trying to understand, I can't really comment. As you said, I can't call a bottom for oil. I wouldn't know how to do that. But what I can say is we're focused on out-hustling our competition and serving our customers better than our competition. We are focused on doing our engineering, our fabrication, all those things that Graham does, extraordinarily well. Regardless of the market environment, we intend to take market share, and we'll drive through this pull-back, whatever the duration is, and come out of this pull-back stronger.

Jason Ursaner: Okay. Following up on part of that answer, on the other side of it, the things that are in your control, clearly you're not really getting a lot of credit for. Could you talk about what you're seeing in fabrication and execution for some of the existing projects, and then discuss the potential CVN-80 bidding, the submarine program and the nuclear market work you alluded to as well?

Jim Lines: Sure. Clearly, there is a very difficult external environment. But the way we've always thought about our business is that our job is to control to the utmost what's in our control. That's how we sell, that's how we execute the orders, that's how we fabricate, that's how we focus on productivity and quality. And if I just think about the remarkable performance year-to-date and how this year will finish up compared to the prior three years, thinking about what our guidance is and using the midpoint, it's about a 25% lift in top line, none of it from pricing, all of it from volume.

Our entire team is driving this business really well. This past year, we elevated our performance and thought differently and acted differently than we had in my tenure here, and it's been a remarkable accomplishment. I know it's not immediately being reflected in our market price, but I think there are external factors in our market value. If I think about this long-term, what we've done as a team is remarkable and it sets us up for success as we drive through this pull-back.

Jason Ursaner: Okay. Regarding the share repurchase authorization, you offer some of the conviction in cash flow. Obviously, understanding the macro is an uncertainty right now, so how should we balance the cash flow, the sizable cash balance on the balance sheet and how aggressive are you likely to be with some of the authorization there?

Jeff Glajch: Sure. Jason, this is Jeff. We're still in the process of structuring out the repurchase program that was just authorized yesterday. Relative also to this authorization program, again at \$18 million, it is less than 30% of our current cash position. We expect our cash to continue to increase. As I mentioned earlier, we're quite excited about the chance to look for acquisition opportunities, particularly in this market pull-back time period, where perhaps valuations will get a bit more reasonable.

Jason Ursaner: Okay. Appreciate that. I'll jump back in the queue. Thanks guys.

Jim Lines: You're welcome.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Brian Rafn with Morgan Dempsey Capital Management. Please proceed with your question.

Brian Rafn: Good morning, guys.

Jim Lines: Hey, Brian.

Jeff Glajch: Hey, Brian.

Brian Rafn: Jim, can you give us a sense of what the pace and cadence of your short-cycle order business is? How is business moving through? Is it getting tougher? Are the bids getting more competitive on the short-cycle side?

Jim Lines: The short-cycle actually has held up well, and in the short-cycle is certainly some of our aftermarket work. As we think about that period-over-period or sequentially, it's been rather strong, which has been encouraging. Not only has the volume been up a meaningful amount, the margin has held as well, which is a very good signal. At this point, I can't point to any directional changes, because I don't see them up or down with our short-cycle work. It's holding very strong and very steady.

Brian Rafn: Okay. I have a strategic question for you, Jim, relative to the infrastructure and the throughput efficiency, the capacity you put in Batavia for your \$200 million sales goal. As you go out over the next five to 10 years, is the capacity at Graham in Batavia sufficient to go beyond that \$200 million? Or when you set up the next three-year to five-year plan after you reach that \$200 million, would that require another capacity addition in manufacturing at Batavia?

Jim Lines: That's a great question. As I think about it today from a status quo perspective, our operating efficiencies, our productivity and where our equipment to produce our products is today, I believe the rooflines are sufficient in Batavia and Lapeer supplemented by our degree of outsourcing, which is somewhere between 10%, 15% generally, to drive beyond \$200 million. Through constraint management, our focus on productivity and throughput and lead-time reduction, I believe, three or four years forward, by continuing with the hard work that our team has been doing in those areas, we can push that volume even farther.

Brian Rafn: Okay. All right, that's very good. I appreciate that. I got on the call a little late and I didn't hear your opening comments. Regarding the naval strategy, you can follow the U.S. Navy, military side, in various websites and publications. But as it applies to Graham, in the last quarter, have you had any

developments or made any progress on either the Virginia-class attack sub or some of the Ohio-class ballistic missile subs, the new class coming out?

Jim Lines: We commented, I think it was two conference calls ago, that we have bids in the pipeline for that type of work. At that time, I expected that those orders would close in six months to nine months and I still expect that to occur. We're actively in the bidding process.

Brian Rafn: Okay. In that bidding process on the carrier side, the CVN-80 Enterprise, have they done anything relative to that, because you've got some work on the Kennedy CVN-79. Is there anything on the Enterprise? Is that still open for bid or to develop further going forward?

Jim Lines: You are correct. We do have work on CVN-79. That's in our backlog now. It has been since late 2009. Initially, the carrier programs were envisioned – the new generation of carrier 78, 79, 80, to be built on five-year centers. What we're seeing now is some budget constraints and also how the Navy is thinking about their fleet of vessels, it might be more or like six-year to seven-year centers between 79 and 80. So we haven't begun to see any real bidding activity for 80 yet.

Brian Rafn: Okay. Initially that was three years to four years going back to the initial announcements, so it's expanding all right, a good answer. Jeff, let me get a question. Jeff, you guys added your treasury repurchase program; what is your philosophy behind that?

Jeff Glajch: Brian, you broke up a little bit there. But with regard to our philosophy, it's really not to offset option issuance or restricted stock issuance because that's not a significant number for Graham. Rather, we look at it as a way to return some cash to shareholders. As I mentioned earlier, the mechanics around how we're going to proceed with this are being developed currently.

Brian Rafn: Okay. One other question relative to that, as you guys talk about that treasury repurchase, are there any worries? Running a micro-cap, everybody always talks about liquidity and float and that type of thing. Does that also go into your thinking relative to how much you guys would actually repurchase?

Jeff Glajch: Yes, it does.

Brian Rafn: All right, guys. Hey, thanks so much. Appreciate it. Good job.

Jeff Glajch: Thanks Brian.

Jim Lines: You're welcome.

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

Chase Jacobson: Hey guys, good morning.

Jeff Glajch: Good morning.

Jim Lines: Hi, Chase.

Chase Jacobson: Hi. I have a couple of questions on margins. First, the SG&A was a little bit lower this quarter. You talk about lower selling commissions. Can you comment on that? Then, on the gross margin, I was surprised it came down sequentially, given this favorable mix and the fact that I think some of those

lower margin projects from last year are complete or at least near-complete. What was going on there with the gross margin and should we still expect it to pick-up? I think your guidance implies that it does pick-up in the fourth quarter. But are we still going to see a ramp in gross margins over the next few quarters as the better-priced projects flow through?

Jim Lines: This is Jim. Regarding the gross margin, we still have some orders in backlog that were won 12 months to 15 months ago. Let me give some perspective. From June through December of 2013, we booked about \$90 million. We still have \$25 million of that work in backlog as of 12/31/2014. For some of that work, we took defensive action to preserve our market share or to keep low cost international competition out of key customer accounts. Those decisions are still in backlog to an extent, and they still will be in backlog through our fourth quarter and into a bit of our first quarter.

Now, what has actually happened is that when we won this work, it all came too fast. We expected it would not be executed within the timeframes that were outlined by our customers, and that indeed has played out as we thought. We still have a good amount of that work in our backlog. I'm very happy we won those orders. But we're still dealing with the margin compression that is a result of those types of orders, and they're in our Q4 and they're still a little bit into our Q1. Jeff, do you want to handle the SG&A?

Jeff Glajch: Sure. On the SG&A, Chase, when we spoke last quarter around commissions being higher in the second half of the year, that did not occur as much in the third quarter as we had thought it might. However, if you look at our guidance for the year, given that year-to-date we're currently a little below 14% as a percentage of revenue for SG&A and we've given guidance of 14% to 14.5%, that little bit of a step-up might occur on a percentage basis in the fourth quarter, not dramatic but a little bit in the fourth quarter. So we would expect SG&A in the fourth quarter could be a little bit higher than it has been as a percentage of sales on a year-to-date basis.

Chase Jacobson: Okay. On the predictable base business, considering that it's growing at a pretty good rate, can you remind us how that is or is not reflected in the backlog?

Jim Lines: It is in the backlog in a couple different ways. A part of it is what we call our short-cycle backlog that typically comes in and out within a quarter or maybe four months. That is somewhere under \$10 million at any given point in time, that short-cycle segment of this predictable base. Also in there is the naval work, and that's more long-lived backlog, but that becomes predictable. Once we've booked it, it's in our backlog. We have vision to the conversion cycle that lifts up our predictable base, and it's also not aligned with the oil and petrochem cyclical.

Those are the key things. The power industry, which includes the Energy Steel aftermarket segment, is in there as well. Add those up with some of our other small product strategies, and that takes us from what had been a \$20-ish million type segment of our business to something around \$50 million for the last four quarters. It's been a great strategy. It will appear more important at points of market pull-back, as that predictable base is elevated to the extent that we just talked about, which is hugely helpful to reduce earnings volatility.

Chase Jacobson: Okay.

Jim Lines: This was the intent of our strategy -- to dampen the cyclical nature of our earnings, so we could invest and stay strong through a downturn, be opportunistic and come out of any downturn stronger.

Chase Jacobson: Great. Okay. One last question, as it relates to the share repurchase. I certainly understand that the current market price does not reflect in the long-term value, but share repurchases have always been at the lower end of your priority list for capital allocation. I was a bit surprised to see it here. What's the read from this as it relates to your acquisition strategy and the acquisition pipeline as it stands today? I'd imagine that there are some good prices out there in the market. Any comments around that would be helpful. Thanks.

Jeff Glajch: Okay. With regard to our acquisition strategy, it doesn't change it at all. Again, it's less than 30% of our current cash balance. As I mentioned in the prepared remarks, I expect strong cash flows in the fourth quarter. Our cash balance at the end of the year excluding this repurchase should be up meaningfully from where it is today. As we look into fiscal 2016 from a cash perspective, we continue to expect to be generating strong cash flow. The amount of this buyback, while I think meaningful from a stock perspective, does not dramatically impact our overall cash position. We have a good amount of cash.

On top of that, as we've said in the past, we have a good debt capacity level, should we need to use it. While the repurchase is certainly a use of some cash that could have been used for acquisition, we don't look at it really as competing with that strategy at all. And to answer your question on pricing, we are starting to see some improvements in the cost of opportunities. But again, it's a relatively recent phenomenon within the last few months. We'll have to see how that pans out, if there are potential opportunities, if sellers have readjusted their expectations or if they're still holding on to elevated expectations. But it does look like prices are coming down, certainly in our sector, for opportunities.

Chase Jacobson: Okay.

Jim Lines: Chase, I just want to echo Jeff's comments and also elaborate a bit. Regarding capital allocation, the priorities are still as they were. They're on funding growth, be it acquisition-related growth or investment in driving our existing businesses. We've done a scenario analysis of the repurchase impact, as well as our cash flow analysis over the next three or four years, and considered the probable size of transactions through acquisitions; this does not in any way affect or change our focus on growing this business. It is to deploy capital, when it is appropriate to do so, to repurchase shares, but – and we went through this analysis quite deliberately over the last several months – we are going to still drive this business, execute the strategy. Those are the priorities for capital allocation, and this is secondary.

Chase Jacobson: Okay, very helpful. Thank you.

Jim Lines: You're welcome.

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

Dick Ryan: Thank you. Jim, I have a question on the backlog. It looks like the \$7.8 million that has been on hold is still there, release date calendar 2015. Has that slipped and can you discuss what bucket that is in? Is that refining or petrochem or something else?

Jim Lines: Sure. That order is for Canadian oil sands. In addition to that order, we've secured another one, which is not currently on hold. However, this order that you've referenced and the second one, we're watching very carefully, because there is a susceptibility for that second order to be placed on hold due to the current environment for how the oil sands companies are seeing their cash flows. In total, those two orders are somewhere between \$8 million and \$10 million. One we know is on hold. I don't think they're subject to cancellation or cancellation risk. I believe they will simply be slowed down.

Dick Ryan: Sure. Are there any other pushes that you've seen in the backlog?

Jim Lines: Not as it relates to the backlog, other than the comments I made during the remarks to Chase's question, which was the expected push to the right for backlog conversion of that surge of work we had for the North American petrochemical orders. That really is not related to project risk or the price of oil. That was just the practicalities of the supply chain being able to execute all that business in a short period of time. Other than the two that I've just mentioned, regarding the quality of backlog or backlog risk, we haven't identified concern at this point in time, Dick.

Dick Ryan: What are you sensing on the power side, specifically in the nuclear efforts?

Jim Lines: We still remain very optimistic in the longer term. I mentioned on the last conference call that we're not market-limited. Our focus and the focus of the management team in Energy Steel is to open up that funnel of opportunities, so we see more opportunities to take share. I believe there's rich opportunity to grow that business, admittedly, to a large degree. It is frustrating at this point, since it has been a range-bound business since we bought it. It hasn't really grown. However, it's been an important contributor to our bottom line and top line, even though we haven't been able to break through the range over the last four years. I'll leave it with this: we're not market-limited. We need to resolve channel management and access to the customer. And we have individuals that are assigned that task.

Dick Ryan: Is that something that can be achieved internally or is that something in the M&A side that could help move that ball faster?

Jim Lines: Certainly, the latter is a possibility. The resources and the investment in personnel have been on the internal side.

Dick Ryan: Great, thank you.

Jim Lines: You're welcome.

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

John Bair: Thank you. Good morning, Jim and Jeff. I know it's a little bit early here with the crude prices dropping down quite a bit, but I'm wondering if you're seeing any indication of a pick-up in interest or bids from areas or countries that are net importers in the sense of expanding their infrastructure for energy, petrochemical, power activity? Are you seeing anything in that regards yet?

Jim Lines: Not yet. Again, this external environment really just came on in the last two to four months. It's quite recent. It was extremely precipitous and abrupt. We haven't really seen a change in our bid composition. I'll try to answer your question this way. The implication of lower crude oil affects our customer segmentation differently. We don't believe there's any meaningful impact on our customer segment that's related to the naval strategy or the power strategy. As it relates to our customers in oil refining or petrochem markets, they are affected differently.

A state-owned refiner that has an energy resource such as oil is impacted pretty significantly by what's going on. A multinational integrated company that has E&P (exploration and production), refining and downstream assets, we believe they're going to be affected in their downstream assets because of the limit on cash flow from their E&P divisions. For an independent refiner that takes that crude feedstock as an input, they're going to benefit from the lower cost of that input. And then, the same type of scenario

analysis or discussion pertains to the petrochem market, depending upon whether they are part of an integrated oil company or an independent petrochemical company.

It does affect us differently across our customer segments. What's important to bear in mind is, as Graham has diversified over the last four or five years. If we thought about Graham historically, our market concentration in oil refining and petrochem was approximately 75% to 80%. If we think about our sales mix today as an approximate number, that concentration is more in the range of 50%. Still fairly concentrated, but not to the degree we were before.

Again, the predictable base strategy is to drive the diversification strategies higher. Those all were intended to support Graham through the cyclical pattern of oil refining and petchem. When there are pull-backs, Graham's profitability is still strong and vibrant. We're taking action during downturns to invest in growth, diversification and acquisitions, to come out of any downturn stronger. The worst thing we want to do is not take advantage of what a downturn provides us, which is opportunity to come through it stronger. I think that answers your question.

John Bair: Okay, thanks. One other add-on to that is, historically, if I recall, activity in South America is not a significant portion of your business. Are you seeing any opportunities to expand your presence and activity in that area?

Jim Lines: South America has historically been under the radar, but it has represented between a minimal amount, to approaching 10% of our sales. We actually had a very good South American component this year in terms of our sales and incremental profitability from that. We have a number of bids in our prospective opportunity pipeline that are for South America: for Venezuela, Colombia, Ecuador, and for Latin America, including PEMEX. These are for very significant projects in our core areas, and we have fantastic long-term relationships with many of these national oil companies. That's a sense of strong optimism. Longer term, I'm a bit more concerned about those opportunities converting in a timeframe that I thought they would convert six months ago, to how I think they might convert now. I believe they're going to push out because of how low oil prices affect those nations.

John Bair: I think it is dependent on how low this level either goes or whether we stabilize out and come back up again, what the timeframe on that is. With regards to your comment on PEMEX, any sense there with the change in their outlook or bringing in outside companies to help them rejuvenate their industry, their energy exploration industry? Are you seeing any effects of that?

Jim Lines: Sure. We do view that very positively. We should be a benefactor of that, again as I remarked a moment ago, we have a number of very significant bids for the Latin American countries, Mexico being one of them. Our sales people have been in those territories most recently as this past week managing those accounts, updating our situation on the opportunities. My judgment is those projects will likely slow down because of the impact of incoming revenues for those countries tied to lower cost oil.

John Bair: Okay, very good. Thank you very much.

Jim Lines: You're welcome.

Operator: Thank you. Our next question is a follow-up from Brian Rafn with Morgan Dempsey Capital Management. Please proceed with your question.

Brian Rafn: I have a high level strategic question. Given some of the political uncertainties, such as Iran with its nuclear program, Russia and the Ukraine, China with its anti-access/area denial, what is your

sense of the tone of geopolitical politics impairing order rates in some of your international business versus the last couple of quarters? Are we in a steady state, is it getting worse, is it getting tougher, is it being delayed?

Jim Lines: That's a big question. I would say we haven't noticed anything in terms of the geopolitical front that materially changes outlook. We do certainly recognize there could be an underlying geopolitical aspect to the price of oil. That does impact petro-states significantly. We do have a lot of business annually, about 10% to 20%, that is tied to petro-states. We could argue, is that a geopolitical strategy? I would say yes. So I think that has an implication potentially. But again, Brian, this is so new. We're all trying to just catch our breath, do the scenario analysis and understand directionally what it really will mean and who and how will parties be impacted. I haven't given you a great answer, but that's the only answer I can give to you right now.

Brian Rafn: I think that's a fair answer. You're not seeing anything change. That's kind of what I was looking for. Let me ask you another strategic question, from the standpoint of the refinery industry. We've heard a lot of guys talking about the renaissance in oil exploration in the United States. We source about 10 million barrels, we use about 21 – 22 million barrels, and a lot of companies have come out and said, we're going to be in a parity by the early 2020s. On the same side as it applies to you guys, the refinery side, you hear people saying that the United States hasn't built refineries since the late 1970s. Will we get to a point where the refinery industry really has to start putting on new plants or can they get us by with the next level of maintenance?

Jim Lines: Well, they've done very well over the last 40 years to maximize what they can get out of the existing assets. I think the last refinery was built in 1976. However, the comments about how we have not had new refining capacity since 1976 can be a bit of a misrepresentation. If we think about the investments done by Motiva, or about the investments done by Marathon in Garyville, they each added 300,000 barrels per day of new capacity at a brownfield site. To me, that's a new world-scale refinery that was put into the North American refining asset base, but not considered new refining capacity.

To us, it felt the same as a new refinery, there was the same order opportunity. There is a bit of inaccuracy, depending upon how you want to interpret it, but we've seen capacity creep, brownfield capacity expansion in the North American market. Graham lives very well on the North American refining base, whether it's revamp, debottleneck, capacity creep, feedstock diversification or what I would refer to as new capacity, and I do refer to the Motiva investment and the Marathon Garyville investments as equivalent to new world-scale refining capacity.

Brian Rafn: Okay, good. I have a question for Jeff. Have you seen any decremental change in multiples of EBITDA on some of the deals? Obviously, the oil thing just happened within the last quarter. Have you seen anybody pull deals on opportunities that you might be looking at? As multiples come down they're more attractive for you, but sometimes the sellers vacate the transaction. I'm wondering what you've seen.

Jeff Glajch: Again, because things are so new, there's nothing meaningful to report at this point. Although prices of crude oil have been dropping since the summer, the real meaningful adjustments started happening after around Thanksgiving. At this point, it's seems too early to tell anything.

Brian Rafn: All right, thanks guys.

Jim Lines: Thank you, Brian.

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

James R. Lines: Thank you, Melissa. We appreciate the questions today and your interest in Graham. We'll have another conference call in May, and we'll update you on the year-end results and our outlook at that point in time. As you've heard from our remarks and via our press release, we're very optimistic about our long-term outlook for the company. Our share repurchase program and step-up in dividend are strong convictions about our long-term view of where this company is going and our cash generation capabilities.

Our performance in this first three quarters of fiscal 2015 is indicative of the operating power of our business. We did investments to expand capacity at the right time, and the team did those investments extremely well, and the leverage we've garnered from those investments has been extraordinary. We are very optimistic. We'll get through a pull-back, whenever one might occur, and our intent is to come out stronger. We'll update you quarterly and on the next conference call. Thank you.

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