Jim Foung, Gabelli & Co. Analyst: Speaking for Graham today are James Lines, Chief Executive Officer, and Jeff Glajch, Chief Financial Officer. With them is Debbie Pawlowski, Investor Relations. Graham has about 10 million shares at $0.16 a shares, a $160 million market value. The company has about $58 million of cash given a $101 million capitalization.

Jim Lines: Thank you, Jim. Good afternoon. As I go through the presentation today, I just want to point out that we are on a March 31 fiscal year-end accounting period. So in one month our fiscal year 2010 comes to an end.

Our vision is to be a world leader in the design and manufacture of engineered-to-order products to the energy markets. There are two distinctions in that vision statement, engineered-to-order products and energy markets. What is important about engineered-to-order products is that the energy sector places great value on suppliers that can special engineer products that enhance operating efficiency, lower environmental impact, and have on-time reliability, and they will pay a premium for that versus making decisions based solely on price.

The second distinction is energy markets. We believe in the energy markets. We believe long-term, the energy markets, although they are inherently cyclical, are growth markets, and we believe that's the right market for Graham.

We are a business that has one third of its revenue derived from ejector systems, which produce a vacuum. One third is from steam surface condensors which also create a vacuum and the remaining is after-market, at around 20% specialty heat exchangers, about 10% of revenue, and the mechanical vacuum pumps, which comprise the remaining 5% of our revenue.

We are an international company. About 50% of our revenue is derived from international end-users. Looking back one to two years ago, we were roughly 60% domestic, 40% international. We are 50:50 today. Going forward we would project that our sales will be about 60% or greater international and 40% or less domestic.

We are often asked, what is an ejector system? What does it do? What is its purpose? This is the picture of an ejector system in a Chinese refinery. An ejector lowers the pressure in a process. It creates the vacuum. In this case, it evacuates this very tall, massive structure which is about 40 feet in diameter and about 100 feet tall, that crude oil is drawn into and then will flash. We create the pressure inside that process vessel that allows the vaporization of the crude oil to be done more completely and with less energy input. An ejector system is a combination of ejectors. One is shown at the top of this column that is about 5 feet in diameter and 40 feet long. On the lower right are three condensers that also comprise the ejector system.

The markets that we serve are primarily oil refining which we believe is about one third of our revenue. We are a little more weighted at just over 40% right now because of the strength in the refining market. Another one third comes from petrochemical applications, chemical processing applications and the remaining one third is from a variety of end-use markets including power generation.

The customers that buy our products can be OEMs. The key OEM for us will be turbine manufacturers such as Dresser Rand or Mitsubishi Heavy Industry, Man Turbo. Those are the types of companies that buy directly from us. We also sell directly to the contractors that are building these massive energy producing plants. Fluor, Shaw, Stone & Webster, and Jacobs would be examples of international contractors, and then of course the end-users buy directly from us, such as DuPont, Dow, Chevron, Exxon Mobil, would be the third segment of our customer base.

Expanding a bit on the markets that we serve, chemical processing is a very broad umbrella. We cover a vast array of end-use applications under that umbrella including ethylene, ammonia, methanol, and nitrogen. These are very massive plants where the average selling price of our product could be between $1 million and $4 million. We also cover secondary petrochemicals such as

styrene, polystyrene, and ethylene glycol, which will be more towards the commodities that we may use as consumers everyday. We also include newer technologies of coal-to-liquid and gas-to-liquids, which are very vacuum intensive and heat transfer management intensive. That is where we do well.

On this slide is power generation. We play in the power generation market when the steam cycle for the power plant is 80 megawatts or less, which would be a co-generation plant, geothermal power plants, a combined cycle power plant, or heat power, and light. We also have in the past and plan in the future to provide our products to the nuclear market. Other applications include edible oils or oleochemicals; there our customers would be Archer Daniels Midlands, Cargill, and Procter & Gamble. We also provide products to bio fuels, ethanol, bio-diesel, industrial gases, air products, BOC, and then cryogenic applications more to an OEM customer base but ultimately for pharma applications.

This slide gives a view of our orders over the last nine months. Much has come from the refining market globally - the Middle East, Asia and there has been some work in the U.S. for revamping of existing refineries. Petrochemicals, there too is largely outside of the U.S. Power generation is primarily inside the U.S., although we did have a nice order from a combined cycle power plant in Turkey.

When we look at refining and where incremental capacity is going to be built between now and 2015 or 2016, about one-half of that capacity is planned to be built in Asia, in China in particular, and about 25% is planned to be build in the Middle East. Graham is a very solid brand in the Middle East and throughout Asia. We have been in these emerging countries for decades providing our products and services and we feel our company's positioned fairly well to take advantage of the upcoming investments and to win the new business over the next several years.

As I mentioned, we see our sales mix becoming more international, projecting that we would see 60% of our revenue derived from international end-users. Asia is very active, right now and in the future, for refining and petrochemical, markets that we serve. Also fertilizer and some renewables or alternative energy, such as coal-to-liquids is very prevalent in China right now.

The Middle East is primarily massive refining projects, petrochemical plants or integrated refineries and petrochemical plants. We recently announced that we had won some very sizable business for the Middle East for two major refining projects that have gone ahead in Saudi Arabia.

In South America it is also energy; it's all refining and petrochemical. It has been our theory that the recovery in our markets will be led by the emerging economies, led by Asia and the Middle East followed thirdly, by South America and ultimately we believe the North American market comes on fourth. We believe through the things that we have done over the last several years and the past several decades has positioned Graham to effectively take advantage of those opportunities that will come in the international markets.

Speaking about our competition, in the North American market, for the ejector systems or refining applications, which is the key driver of our top line, we believe we have a very dominant market share with that particular service – nominally a 75% market share. We don't have a great deal of international competition for that particular service, and we do have some competition that we see from time to time from companies such as Gardner Denver.

When we move to petrochemicals in North America there are some smaller, private companies that we compete with for the ejector systems. For the steam surface condensers, it is a very fragmented supplier base. Our competition will vary based on end-use application and geographic location. Mainly we are dealing with smaller companies, although there are a couple publicly-traded companies with divisions that provide competing products, such as SPX (Yuba).

Internationally our key competitors with ejector systems are European companies. One company is part of GEA and another company is a private company in Germany called Korting Hannover and then the third is, Edwards Vacuum.

For the condensers sold to the OEM or the turbine applications, our competition there can be Korean, Chinese, Indian, and European fabricators of heat exchangers. It is also a very fragmented supplier base.

One of the real values to our business model is our sales process. These very capital intensive energy projects that are $2, $3, $4, or $10 billion have a very long cycle from concept to equipment procurements, to building equipment, and starting up the facility. Our sales model gets Graham involved very early during the concept phase of these projects. We believe by being involved early, we can influence our customers and provide solutions that they need to fulfill their operating objectives. At the same, we're building relationships, understanding the critical aspects of that process, and we understand the timing. That creates a competitive advantage for us to create value for our customer, improve margins for Graham, and ultimately position us to win the business. So a key value proposition of Graham is our sales model.

By being involved early that gives us great visibility into the pipeline. We have a backlog that typically converts 80% to 90% over 12 months. We also have our sales process that gives us visibility of 12 to 24 months into the potential bookings pipeline. Managing our business and having good visibility about the directional changes in our markets makes our management of the company less difficult than it otherwise would be. But by doing it this way there is a large population of opportunities that are always on-going. As they move toward procurement, we are focusing more intently on those by being involved in daily conversations, in technical meetings, to ensure we understand the critical issues of that process of that purchase decision, and we're in the right spot at the right time to win the business.

Looking at our financial performance, without question 2005 through 2009, fiscal year ended March 31, 2009, was a massive expansionary period in the energy markets and the refining markets. We capitalized on that. From 2005 through 2009, we had compound annual growth on the top line of 25%.

As I mentioned, energy markets are inherently cyclical. There has been an abrupt change in the investment pattern, but that's not atypical either; it happens periodically. There was a comment made earlier from a different presenter that the down cycle typically is 12 to 18 months, and that's true. In this change (current downturn) we had projected a reduction to top line of 30% to 40%, which is pretty typical for what occurs in our business when the cycle turns. We projected it correctly, unfortunately with the degree it came down, but more fortunately, we were ready for it.

Year-over-year, comparing 2009 to 2010 which ends in about a month, our guidance right now is for our top line to be between $60 and $63 million, down from $101 million one year ago. While we grew 2005 through 2009, recognizing the markets we serve, the dynamics of our markets, and the importance of being flexible, we had our eyes while we were growing on how the company must look during the next downturn, whenever that would be. I'm not going to say we saw it coming when it came, but we wanted to be prepared for it whenever it did come.

While we were driving the business for controlled growth, we were also focusing on creating leverage across the company, improving our operational efficiency, developing and training our employees, and bringing in change agents to help us to fulfill our strategic objectives. That has allowed substantial margin expansion as well as prepared our company to be profitable and averse to this headwind that we faced with roughly a 40% reduction in the top line.

Our guidance for gross margin this year with the 40% reduction in top line is 34% to 36%. Comparing that with the past at the bottom of the cycle, our gross margins were in the low 20s to the upper teens. We wanted to change how the business performed throughout the cycle not just at the top of the cycle, but also at the bottom and throughout the cycle. I think through the steps that our management team has taken and the changes that our employees have embraced, we've accomplished that, and there is more that we can do to improve our operating performance in the next up-cycle.

Net income expanded more quickly than the top line. The fiscal year 2005, and a couple of years before that were roughly break-even years for us. We've accelerated our net income in 2009 up to $17.5 million of net income on $101 million of sales. This year, as you can see through the three quarters, we are at $5.8 million year-over-year comparison, which compares with $13.9 of net income through the nine months of last fiscal year.

While we focused on operational excellence, our sales strategies and profitability, we also were mindful of changing how we managed our cash and our working capital tied up in the business. One of the benefits of that has been to position our company very well for the downturn with no debt and an excellent, solid balance sheet. We have $58 million of cash and investments available to deploy for growth.

Also, we've taken working capital, which had been somewhere between 15% to 20% of sales in the past, through the initiatives that we've implemented and executed on connecting the sales force to the collection process and cash management, our working capital net of cash is somewhere between 5% of sales to less than 0% of sales. We've done a very good job of managing our cash and changing how the business performed in that regard.

Going to the outlook, clearly it's been a dynamic shift in the market. This slide shows the pattern of how our order rates progressed for the growth period of 2005 to 2008, going from roughly $50 million of bookings in 2005 to over $100 million of bookings in 2008. With the abrupt change we saw our backlog begin to decline. We believe we reached inflexion point about three quarters ago, and we've begun to have our book versus bill exceed one and our backlog is expanding. We see this next couple of quarters, the quarter that we just ended and the quarter we're in and perhaps one or two more quarters, as the trough for us, and then we expect to see growth after that.

Our business can be very lumpy; the order levels quarterly can be very erratic. The lower right hand corner of this slide gives a view over several quarters of how our orders rates have looked. We caution someone following us to be careful to not over react, positively or negatively, to what happens in the quarter but think about us over a moving 12 to 15 months with the bookings. As you see, our bookings have been as low as $8 and has high as $51. We have a red portion on that bar because we did win a very unique project for the U.S. Navy, that was in excess of $25 million. That's not routine; that happens periodically. The period could be every five to six years, so we don't believe that's typical, and we suggest you don't model us that way. Because our bookings can be erratic be careful about how you react to a given quarter, for orders or revenue. Think more about a 12 to 15 month periods when you're analyzing Graham.

This slide shows the proof of what we sought to do during the growth period of 2005 to 2009, which was be ready for the downturn, be profitable in the downturn, be a different company in the downturn. The last peak prior to the one in our fiscal year 2009 was fiscal year 1998. At that time we did just over $50 million with gross margins of 31% and an operating margin of just under 10%.

The peak of 2009 was when revenue was above $100 million, our gross margin was above 40%, and operating margin above 26%. More importantly as we face the 40% reduction in revenue, our operating profitability has held. It's in the mid-teens versus a break-even in 2000 when gross margin fell to 24% and operating margin was roughly break-even. We believe we've changed the operating performance of the business positively to look differently throughout the cycle, the bottom of the cycle, top of the cycle and in between.

How did we do this? Well we focused on the entire business, not just one area of the business. Our selling process was important. We believe that with an engineered-to-order product that we can sell value, and we expect to be rewarded for that. Our selling process had changed and how we branded ourselves had changed and we defined the profitability matrix different across the business. We also put a very clear belief in our organization that not every order is a good order, which was different from how we won business in the past. It'd hard to tell that to your sales person, but we've driven that into the company.

On the people side, they get the job done. They helped transform the company. We focused on our people process with accountability, linking everyone to our strategy and policy deployment. We brought in some change agents to help us in HR, IT and the executive level and the management team. We're aligning and engaging the organization to help us fulfill our strategies.

Operational excellence is a key component of our profitability improvement, our capital plan. We're different from many businesses in that we're a very low volume, extremely high mix business. Much of what we build is one-of-a-kind, custom-engineered to a particular set of criteria from our customer. So we're not a classic manufacturing model, but we believe we are perfecting the Graham production system, which is a low volume, high mix, to have the flexibility and adaptability to respond to the changes and the market demands of our customers. Focused on safety and quality; first time, every time.

Lead-time reduction is a key strategy across our business, in the office and production, and also sustainability. We have a leadership team that has a long-term vision of where we want to take the company. We balance operating performance with investing in the business to fulfill our strategies, and we believe our management process is very sound and appropriate for our business.

In the face of this difficult economy we have set out to do four things: focus on development, our people, our continuous improvement processes and our capital plan. We're still focused on that. We're still implementing those strategies. They're driving benefits to our business.

What we have found that it is very important in the downturn is to stay close to your customer. Don't back off. Be there for them even though they're not spending money. That's how you gain the competitive advantage. That's how you gain market share. That's how you gain market intelligence as to what the direction the markets are heading. We stay close to the customer. We did that in 1999 through 2004. It gave us great improvement in market share. We exercised that again in this downturn. We believe that will benefit us in the next recovery as well.

Performance, we set a clear objective. In the face of a dramatic downturn of 40%, we set the goal to remain profitable, remain sufficiently profitable, not just break-even, and drove that attitude across the business to maintain positive operating cash flow faced with some extreme market conditions. We achieved that and most importantly, be ready: The markets will recover. We have a sense they are recovering now. Our goal was to get through the downturn, meet those first three objectives, but most importantly, be ready for the next upturn. Ascend the growth curve more quickly, take market share and continue to invest and expand our business.

With a strong balance sheet and the steps that we've taken over the last three or four years to improve Graham itself, we've embarked now on an acquisition strategy to expand our business. The foundation pieces are geographic, diversification, product and/or market diversification. Centered around engineered-to-order products, companies that have a strong management team of commitment to quality and a commitment to put the customer first and a management team that intends to stay with the business, the investment must meet our cost of capital criteria or economic criteria. We are not looking simply for an accretive acquisition. We believe the sweet spot for us is somewhere between a revenue range of $30 to $60 million. That doesn't mean we won't look above that, or we may not look below that, but we think that's the ideal spot for the acquisition target.

There are three options here for geographic expansion, getting closer to the customer geographically in the emerging economies, Asia, the Middle East, South America. Regarding product diversification engineered-to-order products are found in the heat transfer application, processed fluid flow applications, and environmental. From a market diversification standpoint, we believe in energy. We believe that is the right place for Graham, nuclear, solar, alternative energy, those are areas that we're looking at from an acquisition target perspective.

We think the Graham story has been a wonderful story to tell, 2005 to 2009. We think in 2010 it's still a great story. I think we have a very compelling future ahead of us, and thank you for your time this afternoon. We'll answer whatever questions you may have. Thank you.

Q&A

Question: Jeff, what was your cash flow generation in 2009 and thus far in this fiscal year 2010?

Jeff Glajch: In fiscal 2009, we generated an excess of $10 million. This year to-date we're at about $11.5 million through the first three quarters.

Question: Currently you're about $57 million in cash and that's building at a pretty reasonable clip. You've pointed to a couple of competitors Korting, Edwards and Jet Pump, what are the size of those competitors, at least the businesses that you compete against to the extent they are pieces of larger companies?

Jim Lines: The question is for the ejector competitors, Korting, GEA or Edwards Vacuum, what is their size? For the ejector business of GEA, we believe it's comparable to our ejector business of around $25 million to $35 million, depending on where the market is. For Korting Hannover, they're comparable in size as well. Edwards Vacuum, we believe is between $5 and $10 million for an ejector business. Edwards Vacuum is a little bit different in that they are an engineering company; they don't have bricks and mortar. They have their equipment fabricated by subcontractors, so they are different type of business than we are.

Question: Are any of these main competitors acquisition targets? Do you have any idea how they are succeeding in this downturn?

Jim Lines: They are struggling in the downturn like we all are. But most of our competitors, whether they're ejector competitors, their business models are different from ours in that they tend not to have bricks and mortar. The GEA ejector business has their equipment fabricated so they can weather a downturn differently from a company that has a fabrication facility. We're all suffering from a tough market, price pressure, and competitive pressure. They are interesting companies to consider. I can just leave it at that.

Question: Suffering, $60 million cash, growing at 15% to 20% a year. We have different definitions of suffering.

Jim Lines: I can say it has been painful but it's not as painful as it otherwise would have been.

Question: When things were going really good 2008 and 2009 fiscal years, there were some difficulties in the plan regarding hitting limits of capacity, some process bottlenecks. Can you tell us what's been done, what has changed in regard to that and where you are at today as far as what you would be at full capacity compared to the height of the last cycle?

Jim Lines: The question was in 2007 and 2008, more in 2007, we had hit a production constraint in our business and what have we done to alleviate the pain that we felt then?

We did have an operational issue in 2007 that affected our production flow. We've looked at our business differently. At that point in time we were trying to employ a different production model that didn't fit our business. We were trying to apply a model that was more very low mix, high volume type of strategy, which wasn't what suited us well. We had to unwind a bit of that and our team was able to do that. We perfected, more than we had in our past going back to the 1990s and the 1980s, how to manage flexibly a low volume, very high mix business.

With our capital plan, we focused on what was limiting our throughput. We didn't have a massive capital plan; our capital plan, this can be comparative, but my point of view is between $1 million and $1.5 million a year of capital when depreciation is about $1 million. We focused on what was affecting out throughput, what was affecting our lead time, what is the throttle point today and how do we alleviate that throttle point. We targeted investments in capital welding equipment, machining equipment, and burning equipment. We had to very quickly open up capacity that allowed us to leverage more of our business than we ever had in the past. That allowed us to take advantage in

2008 and 2009 of the opportunities in the market. So we expanded our capacity very quickly with just some very focused and targeted investments that open up capacity.