Operator: Greetings and welcome to the Graham Corporation first quarter 2011 quarterly results conference call. It is now my pleasure to introduce your host, Mrs. Deborah Pawlowski, IR for Graham Corporation. Thank you, Ms. Pawlowski. You may now begin.

Deborah Pawlowski: Thank you, and good afternoon, everyone. We appreciate your joining us today on Graham's Fiscal 2011 first quarter financial results call. On the call I have with me today, Jim Lines, President and CEO of Graham, and Jeff Glach, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and also provide a review of the Company's strategy and outlook during this contraction in the business cycle. You should have a copy of the earnings release that was put out this morning, and if not, you can access it at the Company's website which is www.graham-mfg.com. In addition, we have posted supplemental slides on the website to provide a visual overview of our results.

As you are aware, we may make some forward-looking statements during the formal 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 that could cause actual results to differ 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 it over to Jim to begin the discussion.

Jim Lines: Thank you, Debbie, and good afternoon, everyone. I am pleased by our operating performance in the quarter. Our team continues to execute well and profitably across the trough of this downturn. We have seen a low level of revenue across the past three quarters, down 30-40% from the same quarters 12 months earlier. We continue to maintain a cost structure that is in line with this lower revenue level to realize the benefit of productivity gains from prior investments in people, equipment and processes, and, most importantly, to invest in internal development so we are ready when our markets recover.

We believe we are nearing the end of the tunnel with respect to low quarterly revenue levels. It can be expected that the second quarter will be in a similar range as the prior three, but nearer to the upper end of the range. Moreover, there's opportunity to exceed that level. This will depend on the number of smaller, short-cycle orders won in the quarter, along with our ability to pull forward and convert existing backlog to revenue. In keeping with our full-year expectations of revenue in the $65-$72 million range, we, therefore, expect high-revenue levels commencing in the second half of the year.

We have had a strong level of new orders over the past four quarters, with trailing 12-month bookings at $107 million, and approximately $80 million, if the Navy aircraft carrier order is excluded. New orders in the first quarter were down and came in at $8.1 million. We have projected a light quarter for new orders because much of the immediately available major project work was awarded previously, as is evidenced by our exceptionally high multi-year backlog level. Backlog remains elevated and is just over $89 million. Graham is fortunate to have such a high level of good-quality backlog during this period of immediate near-term uncertainty. While our markets sputter across what we believe is an early stage of recovery where erratic quarterly order levels are expected, our backlog provides an exceptional base of business to work from and to build onto. We expect new quarterly orders to vary quarter-to-quarter, just as they have over the past two years.

In looking at the pipeline of available opportunities, we are encouraged by how strong it appears. Understanding when orders will ultimately be awarded for projects in the pipeline remains difficult, but that is simply a timing issue. Macro-economic drivers that spur demand for our products have not fundamentally changed. We have identified opportunities in power generation for alternative energy projects such as biomass energy and geothermal power generation. There's considerable refining activity planned for emerging economies in Asia and South America, along with investments planned for the Middle East. Moreover, there are North American refining opportunities, albeit not to the 2007 to 2009 levels. But the chemical project work appears to be picking up, as we are involved in early bidding work for ethylene, fertilizer and other petrochemical processes.

This certainly has been a rough downturn, but I am pleased with how we are operating and how well we are positioned for when our markets recover. Our sales team has identified a number of areas that provide potential for organic growth, including additional work for the Navy, the expanding investment in the domestic market for alternative energy, nuclear power generation, and there is, of course, additional market expansion in Asia and South America.

Our proven ability to generate strong operating cash flow as markets recover, along with existing funds available from our exceptionally strong balance sheet, are allowing us to seek additional growth via acquisitions. Our acquisition strategy is centered on geographic expansion and/or product and market expansion. We are considering engineered-to-order products that fit our sales model. I believe Graham will be ready when our markets recover and that it will expand more quickly than during the last cycle.

Internal development continues to occur. We are investing to strengthen our team with additional personnel and employee training. Our commitment to continuous improvement in operational excellence shined during this downturn period, and we continue to improve the business in areas of lead time, on-time delivery, quality, safety and customer satisfaction.

Lastly, I confirm the prior guidance about full-year revenue and margin is not changing. We expect 5-15% top-line growth and gross margins in the 27-31% range.

I'll turn it over to Jeff for a detailed review of the quarter.

Jeff Glajch: Thank you, Jim, and good afternoon, everyone. I would like to preface my remarks by commenting on how the entire Graham team has continued to perform admirably during this challenging downturn in our markets, ensured that we would remain committed to our customers, generated profitable results each and every quarter and more than doubled our backlog from its low point a mere 12 months ago. We are near the end of the bottom of the cycle, with perhaps one quarter left. We expect to see sequential quarterly growth and growth over prior year quarters commencing in the third quarter.

Let me hit on the key results in the quarter to give you some additional insight from what you read in the press release.

Net sales in the first quarter of fiscal 2011 were $13.4 million, a $6.8 million decline compared with last year's first quarter, but in line with the guidance we provided on our May call. As expected, Graham's sales have continued to be more international in nature. First quarter fiscal 2011 sales were 59% international and 41% domestic, compared with an even split at this time last year. Compared with last year's first quarter, international sales decreased by $2 million because of a large decline in Asia, offset by increases in all other international markets. The decline in Asia was tied to an unusually strong billing level in the first quarter last year. U.S. sales declined to $5.5 million, down $4.7 million.

By industry, sales dollars in chemical and petrochemical increased to $5.3 million, or 40% of total sales, up from 23% of sales in last year's first quarter. Sales to refiners declined to 25%, down from 46% last year, while power and other commercial and industrial markets increased to 35% from 31%.

As Jim mentioned, orders in the first quarter of fiscal 2011 were $8.1 million, down 8% from last year's first quarter. As we have discussed for the past couple of years, we encourage investors to look at our order level, not in one quarter of isolation, but rather using a trailing 12-month view to best understand our order trends.

Backlog on June 30, 2010, was $89.1 million, down from a record of $94.3 million on March 31st, but up dramatically from this time last year when the backlog was a cycle low $37 million.

Orders in the first quarter were 47% international and 53% domestic. Despite a slight lean towards domestic orders this past quarter, looking forward we continue to believe that our sales and order mix, international in nature, specifically shifting towards growing markets in Asia, the Middle East and South America.

As we discussed in May, it is important to note that we expect only 50% - 60% of our current backlog to ship over the next 12 months. Historically, our 12-month conversion of backlog is 85% - 90%. However, a few projects in our backlog have a longer-than-usual conversion period. For example, the U.S. Navy project, which makes up approximately 30% of our backlog, is not expected to begin to meaningfully convert to sales until early fiscal 2012.

Our backlog is split as follows: 38% in refining, 13% in chemical and petrochemical, and 49% for power and other markets. Included in the latter category is the Navy project. On June 30th, 2010, we had three projects valued at $5.2 million in our backlog which are currently on hold. We did have one project for $1.6 million cancelled in the first quarter of fiscal 2011, which we discussed on the May call.

Our gross profit in the first quarter was $3.9 million, or 29% of sales, compared with $8.3 million, or 41% of sales, in last year's first quarter. SG&A expenses in the quarter were $2.6 million, or 19% of sales, compared with $3.2 million, or 16% of sales, for this quarter last year. The restructuring initiatives we undertook over the past 15 months, combined with lower costs related to the decline in sales and favorable timing of expenses, counted for the reduction in SG&A this quarter. Please note that we do not expect to achieve this low level of SG&A dollar spending going forward and we have not changed our full-year guidance on SG&A.

Interest income in the first quarter of 2011 was $16 thousand and our effective tax rate was 32%, both items similar to last year.

Net income in the first quarter of fiscal 2011 was $878 thousand, down 75% below last year's first quarter. On a per-diluted share basis, earnings were $0.09, compared with $0.35 last year. We continue to believe we have achieved solid financial results given the significant effect that deleveraging has on our business with lower volume. We restructured the business to be profitable through the trough in our markets, and yet to be ready for the upturn when it occurs.

Graham's balance sheet remains strong with cash, cash equivalents and investments totaling $71.1 million at the end of June, down from $74.6 million at the end of March, but up 57% from $45.3 million at this time last year. While we are very pleased with this level of cash, it is important to note, as we did in the May call, we have an exceptionally high balance in customer advances, which declined by $200 thousand in the first quarter to $21.8 million, but is still well above the normal range of $5 - $7 million. We expect the customer deposits to remain higher than normal throughout fiscal 2011, though we do believe the level will generally reduce over the period; hence, using rather than generating cash in this category.

We used $2.8 million of cash for operations in the first quarter, primarily from changes in working capital and the payout of deferred compensation which was earned in fiscal 2010. Our working capital position, net of cash and investments, is negative. Even if one backs out the excess in customer deposits mentioned previously, working capital net of cash and investments is still below 5% of sales. We have no borrowings on our $30 million bank line and are utilizing it solely for outstanding letters of credit, which totaled $13.1 million on June 30th.

Capital expenditures were $525 thousand in the first quarter, as we began work on the capital project to support the U.S. Navy order.

As we look at the rest of fiscal 2011, our view remains the same. The second quarter will look a lot like the past three quarters; namely, lower sales levels, $12 - $14 million per quarter, with, as Jim mentioned, potential for upside above $14 million, and expected gross margins in the mid to upper 20% range. In the second half of fiscal 2011, we expect to see significant improvements in sales and gross profit. As Jim mentioned, we are confirming the guidance provided in May. For the full year of fiscal 2011, we expect to see sales 5% - 15% above 2010, or $65 - $72 million, with gross margins of 27% - 31%. SG&A for fiscal 2011 should be in the range of $12.5 - $13 million, and we expect an effective tax rate of 30% - 33%.

From a cash standpoint, we expect our operating cash flow may likely be negative in some periods, primarily due to the unwinding of the high balance of customer deposits that I mentioned earlier. Our operating cash flow beyond the customer deposit line will continue to be strong, as it has been even in the depth of this downturn.

We expect our capital spending in fiscal 2011 to be between $2.8 and $3.3 million; approximately half of this capital is for the equipment to support the U.S. Navy project. We believe the order level over the upcoming quarters will continue to be erratic, and while we generally expect the book-to-bill ratios to exceed 1.0 and our backlog to grow, we may see some quarters where the book-to-bill is below 1.0, as we did this past quarter.

In closing, we believe the first quarter was successful and in line with our expectations. Despite the lower level of sales over the past few quarters, we continue to remain profitable and manage our cash and working capital effectively. We have seen our backlog dramatically expand over the past 12 months by staying close to our customers. The markets are still rough, but we see top- and bottom-line growth occurring in the second half of this fiscal year, based on converting our strong backlog. We believe we will remain profitable in the second quarter, as we did in each quarter of this downturn, and expect to see a noticeable sequential improvement in sales and earnings in the second half of fiscal 2011.

That concludes my remarks. Jim, I will turn it back to you.

Jim Lines: Thank you, Jeff. Operator, please turn it over for questions at this time.

Operator: Thank you. Our first question comes from the line of Rick Hoss with ROTH Capital Partners.

Rick Hoss: Good afternoon, everybody. Jim, you've been through a couple of these up-cycle, down-cycle periods and do you have an initial read on the potential trajectory of the next up-cycle? As we traverse this trough, does it feel like it's going to be maybe not as steep as the last one, but average, below average? Anything you can give us here?

Jim Lines: As I sit here and look at our pipeline of opportunities, which is expanding, there are a number of high-quality opportunities in the pipeline in refining, petrochem, power generation, and some floating L&G work. As I sit here today and reflect on where I was in 2003 or 2004, as we saw a building wave of opportunity coming into the pipeline, I feel fairly similar to how I felt back then. That's not to say, though, that will necessarily translate into a similar strength that we saw in the last cycle. But qualitatively and somewhat quantitatively, as I look at our pipeline, I feel fairly similar to how I felt back then.

Rick Hoss: It looks like some of the Yanbu engineering work was let recently, I think yesterday or the day before, and saw that SK had won the installation piece. Are you able to give any information to us about if you're on that, or any contract wins there?

Jim Lines: That is the type of project where Graham has a great opportunity for its products. We have two large projects in our backlog for Saudi Arabian refining projects already. One is associated with that project, but there is additional work that we potentially could win from that project.

Rick Hoss: Jeff, M&A is something we talk about every quarter. It hurts to see the interest income such a small piece of that cash balance. Can you give us a schedule, an expectation when you think some M&A action is going to close?

Jeff Glajch: Rick, I agree, it does hurt to get that miniscule level of interest on our cash. As we've talked about, we are continuing to work through what is a pretty significant pipeline of opportunities and narrowing down to a smaller number, and we've been pretty active in discussions. From a timeframe standpoint, I really can't give you any further direction there. As we move forward, there's a buyer and a seller in any transaction, and for us to be successful, we need to find a seller who is in line with our view, both from a dollar standpoint as well as from a timing standpoint. So, suffice it to say, we continue to be quite active in that arena and there are a good number of opportunities out there that we are pursuing.

Rick Hoss: And buyers and sellers, it sounds like, broadly speaking, are coming closer together these days than they were, say, a year, two years ago?

Jeff Glajch: That's an accurate statement.

Rick Hoss: Thanks, guys.

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

Chris McCampbell: Congrats on the quarter. Can you talk about where you are in the certification process for more nuclear business; how far along you are and maybe how far away we would be from booking additional revenue there?

Jim Lines: For nuclear certification, that's a lengthy process that spans 12 to 18 months. In terms of it showing up as revenue, I wouldn't expect revenue to flow through our books for nuclear projects for at least 24 months.

Chris McCampbell: Talk a little bit about the opportunity for more military business.

Jim Lines: We're pretty encouraged by that, as we've engaged with the Navy and stated clearly what our intent was with respect to supporting their nuclear propulsion program. There is more carrier work that we're able to do, we believe. There is also work for our products on submarines, destroyers and other surface vessels. There's a lengthy qualification process outside of the carrier work. We don't see sub work immediately in front of us, but we're in the qualification process. We have a very receptive customer that we're dealing with in terms of wanting to work with Graham in the future. So, we see great upside potential from the naval nuclear propulsion program.

Chris McCampbell: Great. Well, I'm glad it's all about to start paying off for you all. You all have done a great job in the down part of this cycle.

Operator: Our next question comes from the line of George Walsh with Gildford Securities.

George Walsh: Jim, could you elaborate a little bit on the M&A activities; the type of companies you're looking at and, more or less, the size and the industries and what you're looking to accomplish there, or just an overview of the candidates you're looking at?

Jim Lines: What we're looking at would be companies that have engineered-to-order products or products that fit our type of sales model, our type of business model, with a long sales cycle, the design of the equipment is specialized, the integration of the equipment into the customer's process is very complicated, and the reliability is high and a failure is very expensive for the end-user.

We're looking for those types of products, which could include heat transfer products, other vacuum-producing equipment, fluid flow, heat transfer, mass transfer, as well as packaging or systemizing some of these products into a larger scope of supply. We're also looking at, again because of engineered-to-order and the cost of failure is high, businesses where decisions tend to be more value-based than price-based. We're looking at businesses that provide either geographic expansion or allow us to enter into additional markets with additional products, or good leverage for our existing sales channel by selling more products to our existing customers, the way we're selling our current products.

From a company size, we've talked in the past, George, about revenue range between $20-60 million. Not to say that we won't look above that range, because we have, and not to say that we won't look below that range, because we have. But we think that's the sweet spot for us. As we do an evaluation for these businesses, we're not looking for simply an accretive acquisition to add a little bit to earnings per share, we're looking at it on a cash-flow basis and achieving a return that's above our targeted cost of capital that we have internally.

Operator: Our next question comes from the line of Dick Ryan with Dougherty.

Dick Ryan: At this stage, Jim, could you refresh my memory? You said there are three projects on hold in backlog. Going back a quarter or two, I believe it was higher than that, but what did it get to at that point?

Jim Lines: At one point, when it was at its highest level, we had five to six orders on hold. I think the value was around $7.5 million. We had a recent cancellation in this last quarter that we recognized some revenue on, as well as the cancellation fee. There are three other orders in backlog now on extended delay. We believe one of the three will be coming off shortly and may affect revenue in the latter part of fiscal 2011 and a bit into fiscal 2012. The other two, which are about $2 million of the $5 million on suspension or hold, are likely to be released in fiscal 2012.

Dick Ryan: Can you talk about what industries they're related to, either on the whole projects or the cancellation?

Jim Lines: For the three that are on suspension, they're all for refining markets. One is for a U.S. refining installation, not for transportation fuels but for advanced lubricating oils to improve the efficiency of a gasoline engine. The other two are for refining projects in international markets. In our periodic follow-up with our customers, the two projects for the international markets are still viable. It's believed that is a timing issue as to when they get released and our best estimate at this point is they will be released in fiscal 2012.

Dick Ryan: You said there's an opportunity for some upside in the current quarter, either from terms of business or pulling something forward. Can you kind of characterize what that would entail?

Jim Lines: In terms of the upside potential, we've given a range of $12 - $14 million for our quarterly run rate through these four quarters that are the current downturn. Upside, above the upper range, will come from short-cycle orders that come in and go out in a quarter, and the level of work that we're able to win and convert during the quarter, and getting some of that backlog moving, based on customer releases and our ability to get it into production for revenue recognition. Just to give it an upper range, it's within $1 million of the upper range that we've already given you.

Operator: Our next question comes from the line of George Walsh with Gildford Securities.

George Walsh: Jim, going again to your view of the improvement in the cycle, could you describe it in terms of what you're seeing from some of the larger engineering or architectural design and engineering firms that you've worked with in the past, and the activity they're seeing and how that's passing on to you and how that compares with other cycles, or the previous one?

Jim Lines: If we look at opportunities that we're working on and our interaction with the contractors, they're becoming more encouraged about the timing of when projects will move ahead. You may be aware that Fluor had an announcement of record bookings in the last quarter and their backlog is at a fairly high level at this point. Jacobs was bullish as well. As for the international contractors in South Korea, they've been winning a good amount of work. The Japanese contractors are beginning to get encouraged. But all around the world, with the exception of refining in the North American market, we're seeing more optimism from the contractors that we're interacting with and the end-users that we interact with, along with the triple machinery OEMs. We just believe now it's a matter of timing as to when things actually start to move through the pipeline to purchase.

George Walsh: It seems like it's everything except North America, as you stated that there?

Jim Lines: Well, let me just qualify, Asia, Middle East and South America.

Operator: Mr. Lines, there are no further questions at this time. I would like to turn this call back over to you for any closing comments you may have.

Jim Lines: Thank you for your time this afternoon. We appreciated your questions and your interest in our Company, and we look forward to updating you on our progress during the next call in October. Thank you.