Host: Good afternoon. Our next presenting company is Graham Corporation. Ticker is GHM, an approximately $200-million market cap company that manufactures and sells key transfer equipment. And we have CEO Jim Lines with us today, who will be presenting. Thank you.

Jim Lines: Thank you Joel. Good afternoon. My pleasure to be here. With me today is Jeff Glajch, our CFO, and in the back is Debbie Pawlowski, Investor Relations for Graham Corporation. We are happy to be here to give you an update of the progress Graham has made over the past year. Please take note of the safe harbor statement.

As Joel mentioned, our current market cap is about $200 million. Institutional ownership is just over 60%. We do have employee participation in an employee stock purchase plan at about 40%. And insider ownership is about 3%.

Our vision is to be the world leader in the design and manufacture of engineered-to-order products for the energy markets. Two key distinctions here: engineered-to-order products. What's important here is where we sell our products to the user, the application is critical. The cost-of-performance value by our products is extremely high, and that leads to decisions that are based on proven experience -- and rather than price-based decisions, value-based decisions.

The other key distinction is energy markets. We serve the energy markets, and we believe long term the energy markets are growth markets. While they may have an ebb and flow to them, long term they provide a long runway of growth.

The products that we produce, they do one of two things or a combination of both. They either transfer heat, create a sub-atmospheric condition or produce vacuum, or a combination of both.

For new equipment sales, the drivers of our top-line have been ejector systems, which represent about one-third of our sales; the in-service condensers, which represent another one-third of our sales. Then the remaining one-third is comprised of aftermarket, which right now is about 22% of sales for the trailing 12 months, and then a couple of niche products -- heat exchangers and mechanical vacuum pumps. End-use markets, historically that the company had served, is oil refining; petrochemical processing; power generation; and a variety of other energies markets such as industrial gases, ordial chemicals, edible oils, Department of Defense.

The growth drivers for Graham are many. We see four key growth areas for our company, aligned along markets.

Oil refining: There are a number of drivers there that are creating demand for Graham's products -- changing feedstock; aging infrastructure; demand increases in emerging economies; petrochemicals; population growth; and the need for new capacity.

Power generation: again, aging infrastructure; the need for new nuclear-power generation. Waste energy projects; alternative-energy projects.

And then fourthly is our market leg aligned with the Naval Nuclear Propulsion Program Department of Defense. There are a number of growth avenues within that market segment.

What we are providing for these markets again are made-to-order products which are specialized, custom-design, custom-built for a particular application. Our business model is one of low volume, high mix, very customized, very specialized. Each order is unique.

The advantage for Graham in these markets is that we have a specialized manufacturing capability at Graham and our recently acquired subsidiary in Lapeer, Michigan. Also, both businesses have a very stringent, highly controlled quality process which is required, whether it be by the navy, by a refinery, by a power generator or by a petrochemical plant.

Again, our business model is quite unique and that's a low-volume, high-mix, business model which has a very unique sales process and a very unique manufacturing process associated with it.

The markets that we serve create unique dynamics that we can take advantage of. Because the application of our products is critical, the value is high and refiner or power generator or petrochemical facility wants to maximize the output of their facility, they look for specialized solutions to enable them to do that.

Also, because of the cost of (indaudible) business as high as it is, they will make decisions more often than not based on value rather than based on price, which represents the barrier of entry for low-cost producers in Asia or others without proven technology such as the technology that we have. This moves to limited competition for the applications or the opportunities that are available. Again, we believe these markets provide long-term growth.

The focus on selling with the opportunities are in Asia, there's demand for new capacity associated with new refining, petrochemical, coal to liquids and fertilizer applications all requiring our products. In the Middle East, large markets that demand petrochemical and refining base products.

South America, similar to the Middle East, refining and petrochemical facilities are being evaluated and will be built over the next five to ten years; in the United States, nuclear power, refining energy and the defense program or the navy program.

You can see our sales mix, in the left hand corner, is the trailing 12 months, about 40% domestic, 60% international. Going back two years, it was inverted. It was 60% plus domestic and 40% international. We had recognized that long-term growth would come from international markets in position to take advantage of that.

What's unique about our business model, and again we are selling products. They are very complicated products to integrate into our customer process. That requires a very long sales cycle. When involved very early a project concept, it better enables us to work with our customer engineers to determine best how to integrate our products into their process. That gets us involved early. Sometimes six months, sometimes 12 months, sometimes as long as 24 months before something is bought. During that time frame, we are building very important relationships. Particularly important, we also understand the decision criteria of the purchases. When you think about our business model, we actually have two to three years of visibility. We have about 12 to 18 months of bookings and our backlog typically is roughly a year, year-and-a-half to convert; a very nice business model to manage this business.

We recently did an acquisition in mid-December of Energy Steel; the company that solely serves the nuclear power generating market, principally in North America. This was an $18 million acquisition, all cash with no debt involved. There is a performance contingency tied to profitability each year for the two years after the acquisition. The acquisition costs were about $0.05 per share and impacted our third-quarter earnings, and principally were expensed in our third quarter. There was a little carry over into the fourth quarter. In the business itself sales are nominally $18 million. The purchase criteria was roughly six times EBITDA. The margins of the business are very similar to Graham's core business and that gross margin is between 30% to 35%; operating margin is 13% to 18% on average. Post acquisition, it added just under $9 million to our back log as of December 31, 2010.

Energy Steel has a very unique, very specialized quality process that's required for the nuclear market. That's a high barrier of entry for incumbents trying to break into that market. They also are a supplier of nuclear-quality raw materials to the nuclear generating plants. They can provide new equipment, parts, supports, pressure vessels and repair of nuclear quality products. Opportunities: we see really three growth legs for this acquisition. One is we believe Energy Steel can more fully serve existing nuclear power plants in the US. They've done a nice job serving it thus far but we think there's more opportunity that together Graham and Energy Steel can pull from the existing fleet. Moreover, we believe that the US will build new plants over a period of time. This was not an acquisition that was focused on next year's earnings; it's on where's the next decade? Where's the next decade after that? And then thirdly, the international markets provide a third leg of growth for our business.

Financial performance: We'll review that now. What we focused on to improve the operating performance for Graham Corporation was a disciplined approach to product pricing and order selection. Again, bearing in mind our business is low volume, high mix and rarely is Graham market limited. We're actually execution limited. The market wants to provide more opportunity to us than we can actually execute. That drives a very robust targeted and rigorous pricing and order selection process in our business. We're also focused on continuous improvement to targeted capital investment to gain capacity and reduce lead time. We believe in our market space lead time can be a differentiator.

Because demand can vary and there can be periods of spurts of business to light demand, as we saw the last two years, we've employed a flexible cost model to accommodate cyclical demand. Also, to drive performance, we've aligned the management team and the employees' variable compensation to our profit objectives and our cash flow objectives.

As a business as a whole, from the quoting process to the collection process, the whole team's aligned to a cash management metric. What this has done for us over a short period of time, it has dramatically improved our operating results, which I'll show you in a moment, during both periods of high demand and during the bottom of the cycle. It also has created a very solid balance sheet. Even after the acquisition, using all cash, we still have about $50 million of cash available on the balance sheet. We carry no debt. We believe our business, because of these strategies, is poised for strong organic growth and acquisition growth.

This gives you a view to how our business grew from 2006 through the expansion period that ended in our fiscal year 2009, a key point that I failed to make at the onset. Our fiscal year ends March 31, so in a couple weeks we are ending our fiscal year 2011. We had very good growth in fiscal year exiting 2005 through 2009, where the business increased by roughly two-and-one-half times from $40 million to $100 million. Then there was the global downturn, where the business contracted quite appreciably, about 40% to 50%, in a span of 12 to 18 months, where revenue fell from $100 million to mid-$60s.

Our guidance for the year ending March 31 is for revenue to be between $69 and $72 million, international sales comprising half to 60% of that. Actually the impact of the downturn hit us most severely in a three-quarter period between the third quarter of 2010 through the first quarter of fiscal 2011, where the annualized run rate was about 50% of our prior peak in 2009. Then, you've begun to see revenue expand in our second and third quarters of fiscal 2011. In our international sales, you can see the red portion of the columns has continued to expand across the recovery.

If you thought about [Graham] and looked back at [Graham] prior to fiscal year 2006, our gross margin would vary between the upper 20%s on average, peaking to just over 30%, and then bottom of the cycle falling below 20%. As we focused on continuing improvement, gaining capacity, and pricing discipline, we saw a very nice lift in our gross margins that eclipsed 40% in fiscal 2009, and still in the upper 30%s during the bottom of the cycle as we dealt with a 50% reduction in revenue. We're very pleased with those results, and they are a testament to the sustainable improvements that we've built into the business.

That income expanded from roughly break even in 2005, $15 million in 2008, just over $17 million in 2009 and if you use our guidance for the past 12 months our net income is $3.8 million for the quarter ending December 31st.

Our gross margin guidance for the full year is 29% to 30% for the year ending in a couple of weeks. On revenue between $69 million and $72 million. Gross margins quarterly, they were at a peak. They were at the right hot peak of 2000 fiscal year first quarter of 2010. Then it began to drop off as demand dropped off.

One of the things we pointed out is while demand was very hot in 2007 and 2008, the business executed very well and performed financially very well. As we see the next recovery and demand picking up one or two years out, perhaps three years out, we believe for modeling purposes, think of our company as achieving mid to upper 30% gross margins, the next cycle. It's possible to get above 40% but we think from a modeling perspective, think on those terms for our business.

As you can see again, the difficult three quarters when the third quarter of fiscal ten through the first quarter fiscal '11 on that income basis. Again we maintained an exceptional level of profitability with a 50% reduction in our top line.

There's a important graph that's really an indicative measure of how the business has improved, how it's actual performance has changed cycle over cycle. The 1993 to 2000 cycle was the growth period prior to this last period. We look fairly similar for the growth periods prior to 1993 where we would go about 50% up in revenue and margins might eclipse, operating margins, EBITDA margins might eclipse 10% or 11% as they did here.

This last cycle, as we focused on improving the business, taking market share, pricing discipline, gaining capacity, we saw revenue expand roughly 2 1/2 times. As we said earlier, from nominally $40 million to just over $100 million. The EBITDA margins quite healthy above 20% peaking at 27.1%. What's important here is you look at our guidance for fiscal '11 our guidance, our EBITDA margin is 15.8% mid point of our range is actually above the prior peaks.

The bottom of the cycle, the EBITDA margin of our business is above the prior peaks. They cycle was 1999 and 2000 and early '80s as well. We measurably changed the operative performance of the business. We are focused on those points that I made earlier.

We also focused on cash flow and a solid balance sheet. Again, this is post acquisition and we still have a strong amount of dry powder on our balance sheet. We're debt free, just under $50 million of cash and investments on our balance sheet.

We did secure some advance payments with some contracts that we won 12 days and two months ago. One was for the US Government for a navy project that give us an extraordinarily high level of customer deposits. We're working through that and we provide an indication of that as of 12/31/2010, $68 million of the $48 million reclassified as extraordinary levels of customer deposits that will work through in fiscal 2012.

Our back log, which is good leading indicator for where the business is going, both profitability wise and revenue, of course, is that at or near a record high. It's around $90 million as of 12/31. The quality of our backlog, we believe, is superior and the backlog is being converted to sales itself in Q3 and our Q4. We mentioned that we should see margin lift beginning in Q1 as we worked through the rougher margin backlog that was 12 to 18 months ago.

The actions we took to drive growth: One of the key focuses of management was to expand the addressable market for the business. One area was the Naval program. We wanted to have a clear, strong leg serving the Navy. There are a number of vessels where we can provide our products, the Naval Nuclear Propulsion program refers to the carrier program and the sub program and there is equipment for Graham on each of those vessels. We won a $25 million order, in excess of $25 million about 15 months ago. There's greater opportunity there than we are currently accessing. We also look to expand our range by acquiring Energy Steel. We're having a clear focus on the nuclear power generating market and also renewable energy that area is in North America that is very active right now.

Also because we have an ebb and flow on demand for our products, we've driven our flexible cost model through subcontracting. We're subcontracting North America in times of high demand. We're also subcontracting in China, South Korea and India. That's more to fit the local requirements of the buyer that wants local content. But we have been improving that model creating a competitive situation with multiple suppliers in a given country and has been a great model. I think that model demonstrated itself in the downturn as our company was still healthily profitable, with a 40% to 50% reduction in top line.

We also focused on improving our business; shortening our lead times; eliminating errors; improving the quality of our processes; often having a bent on continuous improvement. We're also investing on personnel to expand our capability and capacity going in to '12.

While we've acquired Energy Steel about three months ago, our acquisition program is still active. We are still looking for acquisitions as I mentioned, we are firm on our [?] and balance sheet. Our acquisition criteria will center around three interwoven aspects. Geographic expansion, having operations where demand is expanding more quickly, which would be in Asia, the Middle East or South America; providing our business with additional market diversification, alternative energy, nuclear power generation, perhaps Department of Defense projects; and providing us product diversification. Again, ETO products where we can leverage our sales channel to pull more of our customers' pocketbook our way.

The acquisition criteria: in summary, engineered-to-order products for energy industries. The company should have a strong management team with a focus on the customer and a focus on the quality of the processes. Revenue of $260 million; that doesn't mean we won't look above that and we have. We think the sweet spot for our acquisition targets would be between $25 and $50 million. We'll look below that as well. Any acquisition that our business would make would have a return in excess of our cost of capital.

When you think about Graham we feel there are a number of investment highlights to bear in mind. We think the energy market is a growth market long term; several decades of growth we think are in front of us, although it will have an ebb and flow to it. The business near term has a record high backlog of high-quality orders. We have a great brand. We've been in business for 75 years. We started our 75th year this past Monday.

We're well known throughout the world and our brand stands for commitment, high quality and delivering on our promises. We have a sales model and a business model that is ideal for low-volume, high-mix, ETO products. We have a great balance sheet; there are a lot of acquisition opportunities out there that we can consider and our management team is focused on sustainable growth and improving the financial performance of our business. With that, I'll gladly, or Jeff will gladly answer any questions that you may have. We have about three minutes. Any questions for us?

Questioner: Could you talk about the integration of Energy Steel and any aspects of the business that you may have been particularly pleased with or any aspects that you find you could improve upon? And the timing of when you expect it to be fully integrated.

Jim Lines: Actually, we've been very pleased with the integration of Energy Steel. We were very methodical and disciplined in our approach to finding the right target to acquire. We did our homework, we think. We haven't had any negative surprises through the first three months. A great management team. A management team that sees opportunity, they know where it is and they're helping us understand how to structure the business to take advantage of it. We have a facility that actually has a capability of producing two times or three times the through put they're currently doing and that's fantastic. We haven't had any negative surprises and I would say the integration has gone quite well. Certainly by the end of fiscal 2012, we'll have ETO compliance, Section 404 compliance in the business by mid-year fiscal 2012.

I think the integration and the acquisition really has met my expectations 100%; it has gone very well and I'm extremely pleased.

Questioner: When do you expect it to be fully integrated?

Jim Lines: I think the full integration is just a matter of months from now, quite honestly; we're not that far away. Part of our criteria was a culture that would warrant an integration that was not overly complicated because we're a business that's $60 to $100 million. We didn't want to stretch the management team in a way that made for a complicated integration, so that was part of our criteria.

Questioner: So it's a pretty smooth integration process. Are you more confident in an M&A market? Are you a little bit more active than you used to be?

Jim Lines: We certainly are more active than we used to be. With that qualifier, we've been active for about the last 10 to 18 months, looking with rigor to acquire a business. We're still very active; we recognize that we want to insure being fair to Energy Steel and being fair to the shareholder. We integrate well the remaining parts of Energy Steel, but we are still active looking at candidates and if one were to present itself we would move at it.

Thank you for your time.