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

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

Deborah Pawlowski: Thank you, Claudia, and good morning, everyone. We appreciate your time here today with the Graham Corporation second quarter fiscal year 2012 conference call.

On the call, I have with me Jim Lines, President and CEO, and Jeff Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and also providing a review of the Company's strategy and outlook. If you did not get them via email, you can find on our website the slides that they will be using with the presentation and the website is graham-mfg.com.

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

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

Jim Lines: Thank you, Debbie. Good morning, everyone. We appreciate you joining us for our second quarter earnings conference call. We had a very solid quarter. I wish to commend the management teams and employees at our Batavia, New York; Houston, Texas; Lapeer, Michigan; and Suzhou, China locations. The teams executed extremely well, had close collaboration for a couple of major projects and, together, delivered tremendous value for our customers and terrific financial results for the business. I cannot say enough about the fine work our employees do each day to ensure we remain the supplier of choice to our customers, to develop deep and lasting relationships with our customers by helping to solve their challenges and by adding value during every interaction with us, and to make our businesses better by improving quality, becoming more productive and by developing ways to improve processes.

Please turn to page 4 in the deck. By expanding our addressable markets during the downturn, we were able to have significant revenue growth in the quarter. Revenues were $33.6 million, with power, including sales by Energy Steel, being about 30% of total revenue. The refining market was strong at 36% of sales. Our other commercial and industrial markets, which include our work for the U.S. Navy, were about 20% of sales. The chemical and petrochemical markets were about 12% of sales. There was exceptional comparable period growth of 68%, along with 25% sequential growth.

Short cycle organic sales continued to be strong, up 30% year-on-year and up 20% sequentially. Energy Steel provided $7.2 million of revenue in the quarter. The team at Energy Steel executed extremely well on an order in excess of $2 million, one at the very end of the first quarter that was mostly completed during the second quarter. Actual shipment for that order was completed mid-October. This order lifted Energy Steel revenue above $7 million. Sales were fairly evenly split between domestic and international markets, with domestic sales at 53%.

Please turn to page 5. Terrific financial results in the quarter were achieved with net income at $5.5 million or 16% return on sales. Gross margin was 38%, with EBITDA margin at 26% in the quarter. These results reflect solid execution by our teams and leverage from high production utilization in the Lapeer and Batavia operations added volume through our ongoing outsourcing strategies. We had approximately 25% of Batavia's production that was outsourced. The benefit of increased volume from short cycle organic sales at higher margin and timing of backlog conversion related to recognizing revenue and profit for a couple of refining orders that actually were won in the third and fourth quarters of fiscal 2009. Again, we achieved 16% return on sales, up from 10% year-over-year and 12% sequentially.

Please turn to page 6. I am very pleased by improvement we continue to see in our markets and by order development and margin improvement on orders we are winning. The organic business increased short cycle sales year-over-year about 20%, with improved margin on those sales. Our larger orders increased substantially year-over-year about 35%, comparing the periods of January through September of 2010 with January through September of 2011, and, here too, margins improving comparing the two periods.

We also had $5.9 million of orders for the power market, including $4.3 million from Energy Steel, and $10.9 million of new bookings from chemical and petrochemical markets. Just under $3 million came from the refining markets for new orders. Qualitatively, bidding activity is improving. Outlook long term is very positive. Short term, we'll see order levels vary somewhat, but all in all, we're seeing a much healthier market.

Please turn to page 7. We do feel the recovery is upon us, although it is in the early stages. The benefit of expanding our adjustable markets results in full year sales projected to be between $104 and $110 million for fiscal 2012. We won't rely solely on the strength of refining and chem./petrochem markets this cycle. It will be refining, chem./petrochem, power, Navy and other industrial and commercial markets that will fuel our growth going forward.

Please turn to page 8. We see continued improvement in the refining markets and the petrochemical markets. We have a lot of activity in our bid pipeline for Asia; new refineries for China, new petrochemical plants in India, Southeast Asia, and China. In the Middle East, we see activity there coming up. That's not immediately in front of us, but we're seeing it in our pipeline, which is a good sign. And equally important, we're seeing improvement in the North American market. We have a number of refining projects that we're now bidding for the U.S. or North American refining markets. And, also, because of the shale gas finds and lower cost natural gas, we're seeing investments that are being considered – and some have actually gone ahead. We have orders in our backlog for them – of investments in new petrochemical capacity in North America. That's all very favorable for us.

For the power market, we're very optimistic about our acquisition with Energy Steel and what we see in the U.S. nuclear power market for life extension and ongoing investment in existing utilities. Also, we're optimistic about investment in North America around new plant construction. We are bidding various projects associated with life extension for the existing plants, along with new builds for North America. Alternative energy, as we've said on prior conference calls, has been a bright spot in North America for the last several quarters. We continue to see a good amount of bid activity for alternative energy projects in North America.

With our ongoing efforts with the Navy for their nuclear propulsion program, I'm very pleased with our progress. I'm pleased with the execution on the order that we have and where our Company is currently situated for future work with the U.S. Navy, not just on carriers, but we believe we'll be in place to win business for additional vessels in our future.

Please turn to page 9. With our strong first half, we have adjusted our outlook for the full year. Full year expectations, as I said earlier, are for revenue to be between $104 and $110 million, with Energy Steel providing 16% to 20% of total revenue. The organic growth rate will be 25% to 30%. Gross margins are projected for the full year to be between 32% and 33%, with SG&A approximately 15% of sales.

Please turn to slide 10. Our priorities in fiscal 2012 remain, (i) advancing our market share and maintaining our dominant position that we hold in oil refining and in petrochemical markets, (ii) continuing to improve our share in Asia, (iii) maintaining our strong positions in the Middle East and in North America and (iv) being ready for investment that will be made in South America for new refining and petrochemical capacity.

At Energy Steel, our focus is to expand their capabilities to increase their sales and profit, exploit the benefit of working together with Graham, Graham bringing its engineering and fabrication capabilities to the strong capabilities at Energy Steel, and aggressively pursuing the U.S. nuclear utilities opportunities for both new build and investments for existing plants. We will continue preparing to capitalize on investments the U.S. Navy will make around its naval nuclear propulsion program, and we will continue to evaluate acquisitions to add diversity and further expand our growth.

With that, I'd like to turn it over to Jeff, who will provide greater detail on the quarter. Jeff?

Jeff Glajch: Thank you, Jim, and good morning everyone. As Jim mentioned, we had a very nice second quarter. If you can start on slide 12, you can see sales were at $33.6 million in the second quarter, more than double last year's Q2 sales of $15.7 million. Of this growth, we had 68% organic growth, with the remaining $7.2 million coming from the Energy Steel acquisition.

Sales in the second quarter were 53% domestic and 47% international, similar to last year, though last year was slightly skewed towards international at 52%. Graham's historical markets continue to be tilted toward the international arena, whereas Energy Steel is almost exclusively domestic.

EBITDA margin in the second quarter was 26%, up from 17% last year. Q2 net income was $5.5 million, or $0.55 per share, up from $1.6 million, or $0.16 per share, in Q2 last year. As expected, Energy Steel continues to be accretive to earnings in the second quarter, as it has in every quarter since we've purchased them, and was an important component to our earnings growth this quarter.

I do want to note one item. We did incur a $389,000, or $0.04 per share, charge in the quarter related to the earn-out provision for the Energy Steel acquisition. This is simply a function of the improved likelihood of paying the earn-out, not only for calendar year 2011 but also calendar year 2012. We are pleased to incur this charge, since it correctly implies that the profitability of Energy Steel has been strong, above the $4.0 million annualized EBITDA level necessary to trigger the full payout in calendar year 2011, and stronger expectations for calendar year 2012 for Energy Steel.

For the first six months of fiscal 2012, sales were $58.6 million, up from $29.1 million in the first half of last year. Organic growth was $18.4 million, or 63%, for the first six months, and Energy Steel contributed the remaining $11.1 million increase in sales. EBITDA for the first half of the year was $13.8 million, with an EBITDA margin of 24%. This is up from $4.2 million of last year, which was an EBITDA margin of 15% in the first half. Net income for the first six months of the year was $8.5 million, or $0.85 a share, up from $2.4 million, or $0.24 a share, last year.

On the next slide, speaking of the backlog and the orders, orders in the second quarter were $23.5 million, up from $10.5 million in the second quarter last year. In the first six months of the year, orders are $42.5 million, up from $18.6 million. Organic growth was 61% of this increase in the first half of the year, with the remaining $9.4 million coming from Energy Steel. Backlog at the end of September was $75.1 million, down from

$91.1 million at the end of March. This drop is not surprising, given the strong revenue conversion in the first half of the year.

Finally, we have one order for $1 million which is on hold from a customer. This was an order that was put on hold in October 2008, released about a year ago, with an expected delivery of December 2012 and is now back on hold.

On to the next slide, gross margin in the second quarter was 38.1%, up from 34% in Q2 last year and sequentially up from 32.8% in the first quarter of fiscal 2012. SG&A in the second quarter was $4.3 million, up from $3.0 million in the second quarter last year. The increase came from both investments made in our organic business, as well as the addition of Energy Steel. Operating margin in the second quarter was 25%, up from 14.8% last year.

On the next slide, you can see our cash position continues to be strong, with $37.7 million of cash and no debt. While you see a decline in cash in this fiscal year-to-date, as mentioned on the last call, this is simply timing. As our revenues have increased over the past few quarters and projects are in various stages of completion, our receivables and unbilled revenue have also increased. However, as stated in the last quarter's call, we expect this will convert to cash over this quarter and possibly the fourth quarter and, in fact, have already seen this taking place in the month of October. We are well positioned to utilize this cash and, if necessary, some portion of our untapped line of credit for future acquisition activities, as well as internal growth opportunities.

We are very pleased with the acquisition of Energy Steel, its performance, the strength of its management team, and its nice fit into Graham. We're continuing to look for new acquisition opportunities going forward. We intend to use the same discipline and thorough methodology as we did with Energy Steel. We believe it's not whether we make an acquisition that is important but rather that we make the right acquisition.

Finally, on the last slide - the outlook - just to reiterate Jim's comments for the full fiscal year, we expect revenue of $104 to $110 million, a growth rate of 40% to nearly 50%. Of this increase, organic growth is expected to be 25% to 30%, with the full year impact of Energy Steel adding the rest. We expect Energy Steel to provide 16% to 20% of Graham's overall revenue in fiscal 2012. Gross margins for the year are expected to be between 32% and 33%, SG&A at approximately 15% of sales, and as we stated previously, the tax rate is expected to be 33% to 35% and we expect to spend $3 to $3.5 million in capital in fiscal 2012.

With that, I would like to thank you for your time and interest in Graham and open the line for questions. Thank you.

Operator: Ladies and gentlemen, we will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, if you would like to ask a question, please press star, one on your telephone keypad at this time.

Our first question is coming from the line of Chris McCampbell with Stifel Nicolaus. Please state your question.

Chris McCampbell: Great quarter, guys.

Jeff Glajch: Thanks, Chris.

Chris McCampbell: Where would you say you are in the cycle now?

Jim Lines: Chris, I would say we're into the recovery, as I've mentioned in the prepared remarks, but in the early stages. And what that means, and if we reflect back to the last cycle, the recovery has an ebb and flow to it initially. It's very hard to predict in the first several quarters going into the recovery, but if we look at it qualitatively around what's in our pipeline, how the orders/potential orders are moving forward in our pipeline toward procurement, and the size of the pipeline beginning to expand, it suggests to us that the worst part of the downturn is behind us and recovery is upon us. And from my view, it's just a matter of timing before the pipeline converts to orders, and we're prepared to execute on those orders better than I felt we executed the last cycle.

Chris McCampbell: And would you expect your backlog to begin to level out?

Jim Lines: I think that's a very good metric to look at, which is, where is our backlog? I just want to speak a little bit about the backlog decline. As Jeff said, we had a strong quarter, $33 million; but one point I want to make is, in the second quarter and third quarter of 2009, the Company booked combined $80 million. At some point that has to be worked down and there will be some consumption of backlog where book-to-bill will be below one. We're going through that right now; we weren't a $160 million business at that time, so consequently, what you're seeing now is occurring. I think we're at a point now where it's going to begin to level. We're hitting an inflection point and, I think, as we go forward, we'll begin to see backlog growth.

Chris McCampbell: Great. I'll let some other folks ask questions, but maybe just a little more color on the acquisition front in terms of, are you finding things maybe just a little too expensive out there or are you just making sure you find the exact, right fit?

Jeff Glajch: I think more the latter. We're making sure we find the right fit. We're not finding the prices too high at this point in time, but we want to make sure we find the right fit, as we did with Energy Steel.

Chris McCampbell: Yes, that worked pretty well. Well thanks a lot, guys. Congrats again.

Jim Lines: Thank you.

Jeff Glajch: Thanks, Chris.

Operator: Our next question is coming from the line of Joe Mondillo with Sidoti & Company. Please state your question.

Joe Mondillo: Good morning, guys.

Jim Lines: Morning, Joe.

Joe Mondillo: I was wondering if you could talk about what hit in the quarter that had such a high margin. Was that part of the Navy orders? I'm not sure if you mentioned that in your prepared remarks. And, also, what kind of margins are you getting in your orders? Have you begun to see any improvement there, or is it still sort of flattish. What is pricing like these days?

Jim Lines: Okay. A couple of things influenced the quarter, and we'll provide some granularity on that. I mentioned that we had won a couple of refining projects in the prepared remarks, near the peak of the last cycle - our second, third and fourth quarters of fiscal 2009. Both of the projects were put on hold and delayed for several quarters and now began to run through revenue. The pricing that was reflective of the environment at that point in time, which was a pricing environment superior to what we're seeing today, but we've benefited from those orders pushing through backlog now. Moreover, we also enjoyed, on one of the projects, the benefit of being able to lower our direct costs because materials at the time when it was booked and materials when we actually bought the items we would use for fabrication were far less. So our direct costs on that order came down by about 10%, reflective of the higher margin that was realized in Q1 and Q2. So, that's an event that really stays within Q1 and Q2.

Also – and I think this carries forward, which is important – the level of our short cycle organic sales continues to expand compared with a year ago. That's up about 30%, and our margins are improving, so we have the acceleration of the earnings that comes from improved volume and improved margins with that segment of our business, and as I said, I expect that to carry forward. To give a comparison on that, if we look at the incremental revenue that came year-over-year from that segment of our business, not quite but almost dollar for dollar of the delta revenue dropped to variable margin, and that was an appreciable effect on earnings in the quarter, and I do believe that carries forward.

Also in the quarter, we had the benefit of a very nice order secured by Energy Steel at the end of the first quarter that primarily was executed across the second quarter, not entirely, but a great percentage of the order was taken in the second quarter. That meant that Energy Steel went from nominally $5 million to $7 million and that was a good order, with great execution and great coordination by Energy Steel in Lapeer and the team here in Batavia to step up to a very significant challenge and deliver a very important product on time.

But I just want to talk qualitatively… we see the market environment improving and one of the things we would look at is the order rate. We're seeing order rates improve organically for our small and large order business; and in both cases, the margin is up compared with a year ago. And then I would suggest, or state, that the margin of what we're booking now is, on average, above the average margin of our backlog, suggesting that in subsequent quarters, we'll have some improvement in margin - not compared with Q2 or Q1, but to what we might realize in Q3 and Q4. So that's telling us we're into the recovery. It might be the early innings, but the metrics that we'd look at would be order development, margin improvement, and the average margin in our backlog. All are positive. All are directionally in the right way and, to us, thinking back about prior cycles, those are clear indicators that the worst is behind us.

Joe Mondillo: Okay. The next question I wanted to ask was, in terms of your end markets, power generation saw a big improvement. Could you talk about what you're seeing there and if that's sustainable, secular improvement going forward? And also, in chemical processing, you're seeing improvement but not, I guess, significant improvement. It's still in the range of where you've been over the last four or five quarters. Could you address if you expect that to maybe pick up even more going forward?

Jim Lines: Sure. For power, the two aspects of the power market that are currently important to us are renewable energy and nuclear power in the U.S. We're seeing a great deal of activity in our bid pipeline around those types of projects, and these are projects that have an average selling price (ASP) of half a million to $1 million. There are quite a few of those, and we've won a number of them already, which is great additional, incremental work to our business. We don't see that abating. Right now, it looks to be fairly strong. The nuclear segment, to us, looks to only have an upside, from where Energy Steel was to where we think we can get to together, Graham and Energy Steel combined. And that has a component of new build associated with it, an aspect related to life extension for the existing plants, and just ongoing maintenance at the existing plants, as well. We see only really significant potential upside there.

Around petrochem… our sales have been down as a percent of overall sales from the petrochem and chem markets, but I'd like to point you to our bookings level. From this market segment, chem/petrochem has been about 20% of our bookings, so while the sales are lower percentage wise, we're adding into our backlog from the chem/petrochem market. And when we thought about the last recovery in the early '90s, chem/petrochem led the way in advance of refining and it seems to be playing out that way again.

Joe Mondillo: Okay, great. I think that's all I have for now. I'll jump back in queue. Thanks a lot.

Jim Lines: You're welcome.

Operator: Our next question is coming from the line of Gabe Birdsall with Brasada Capital Management. Please state your question.

Gabe Birdsall: Hi, guys, thank you. Actually, the previous two questions covered it for me. Thank you.

Jim Lines: You're welcome.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question, please press star, one on your telephone keypad at this time. We will pause for a brief moment to poll for additional questions.

Our next question is coming from the line of George Walsh with Gilford Securities. Please state your question.

George Walsh: It's very interesting that you're able to move forward with orders here, while there is a lot of headline risk going on between the Euro zone and changes in the price of oil, even what's going on in nuclear. Jim, could you comment on your customers and how they're moving ahead in the face of some of those risks, and how they feel about their projects and wanting to go ahead?

Jim Lines: Sure. From the conversations we're having with our customers, there is some worry in the immediate term, over the next several quarters. But longer term, the demand continues to increase and we need to satisfy that demand. What's great about the space we play in is the construction cycle for new capacity is three to four to five years, so an investment that needs to be made today to satisfy incremental demand four or five years out doesn't focus a whole lot around the sound bites that we all hear around the economy and the worry that's in front of us as we read the paper and listen to the news. They're more committed to the long-term fundamentals of the markets.

What's encouraging to us is we have a number of opportunities that we're bidding right now that are for North America refining. We didn't have those 12 or 18 months ago, but they're coming through the pipeline now. They are for feedstock diversification and revamps to expand refining capacity in North America. There are a couple of oil sands projects that are moving forward for upgraders, which is where our vacuum systems are used. There was about a three-year pause in activity there, so that's an encouraging sign. And, here too, these are projects that are several years to commercial operation of the new capacity or improvement. They're not so worried about what's in front of them today.

Around nuclear, now to us, that's really exciting. As Jeff said, the acquisition of Energy Steel has been wonderful. It's a great team and it's a very important market that seems to have strong fundamentals to provide growth for us, not just on one front but on multiple fronts. We believe there will be new utilities built in the U.S., and we believe we will participate in that. That's a very significant opportunity for us. Around the existing 100 or so plants in the U.S., they're not being wound down. They're going to invest to maintain and improve power output. There's life extension, which drives high cap ex to replace existing equipment. The three legs there, not counting international, to us suggest a very long runway for growth - and significant growth.

In the Asian markets, that seems to be strong. China's continuing with investments around new refining and new petrochemical capacity. We're winning business for new petrochemical capacity in India. It's in our backlog. We have some bids in our pipeline that, hopefully, we will win around there, too. I think the activity in the Middle East is one or two years out, but it's early stage bidding for us, which is encouraging. In South America, we have a number of bids for Brazil, Columbia, and other countries around refining and petrochem and fertilizer projects, all very promising, all markets where our brand is exceptionally strong. And again, to us, it feels like the worst is behind us.

Yes, we all listen to the worry and the doom and gloom and the sound bites we get, but the fundamentals of our markets are strong. Long-term investments have to be made to deal with the incremental capacity, and to us, it just is a great story and a great long-term growth trajectory that I think we're going to be experiencing over a number of years.

George Walsh: Okay. And the customers' capital funding, their long-term demand is there and nothing is holding up their funding of capital for these projects.

Jim Lines: At this stage in the recovery, the projects that we're working on are a little smaller than the mega projects that we'd like to see moving forward, but those smaller projects are great. We like them a lot. And the multi-billion dollar projects or $10 million and $15 million orders aren't moving into the pipeline toward procurement just yet, but they will.

George Walsh: Okay. Do you have a growth rate for just Energy Steel revenues year-over-year?

Jim Lines: Sorry, I didn't catch that. What was the question?

George Walsh: The growth rate of Energy Steel on its own year-over-year, its revenue growth rate.

Jeff Glajch: George, Energy Steel actually had quite a good first half of 2010. They had a couple of large orders that worked their way through, so the growth rate is actually not that significant year-over-year, but it's really due to the timing of a couple of projects they had pre-acquisition.

George Walsh: Okay.

Jim Lines: I'm going to come at it a different way. When we look at Energy Steel as a business we bought in the mid to upper teens for revenue, we see a business that, together with the Energy Steel team and the Graham team, $40 to $50 million of run rate is not out of the question over the next several years. Not this year or next year, but we think there's that much demand and we're going to go after it. We're going to do the right things to position our companies to win that business and I think it's that strong.

George Walsh: And do you see that being the same way, purely domestic, not moving internationally?

Jim Lines: Internationally gives us opportunity and, as I said on prior calls, I believe that's third in our priorities. We want to take care of our home market and go after the great opportunities that we see there, again, with investment in the existing plants, and we believe there will be investment in new construction. We want to win there first, while we develop our strategy to win internationally.

George Walsh: Yes, but that's a nice, healthy domestic market target. Okay, but that's good. Thanks a lot, Jim.

Jim Lines: You're welcome, George.

Operator: Our next question is coming from the line of Joe Mondillo with Sidoti & Company. Please state your question.

Joe Mondillo: Hey, guys, just a couple of follow-up questions. First on the short cycle business, how much does that make up of your business? And it seemed like last call you were sort of saying that you were thinking that may subside from the strong levels you saw in the first quarter. Obviously, that continued through the second quarter here and you're sort of thinking that will continue. Could you just give a little more color on your thinking of that piece of the business?

Jim Lines: Sure. Prior to the acquisition of Energy Steel, the short cycle business was roughly one third of our revenue mix. With the addition of Energy Steel, I would call it roughly 20% of our revenue mix. What's great about our business model, with respect to large projects, is we have clear vision into the pipeline that suggests we know what's coming 12 or 18 months before it arrives as bookings. We have visibility in our backlog of about 12 months, so we have about 24 to 30 months of visibility with our large project work. For the short cycle business, we don't have that visibility, because it doesn't have the same long sales cycle as our larger work, so it's hard to judge the direction of that in the near term. But we do remain positive, again, because we're seeing the order development improve and, more importantly, margins improve over comparable periods for the short cycle business, again, suggesting we're into the recovery and spending is being freed up.

Joe Mondillo: Okay, great. And then, two other questions. First, I was wondering if you could talk a little bit about the nuclear business or market. Have you started to hear anything in terms of rules and regulations or increased safety regarding what the regulators have been talking about over the last six months? Has anything progressed there that you may benefit from?

Jim Lines: We believe so. We haven't heard much from the utility yet, but the NRC report is clearly indicating that investments need to be made to improve safety around cooling of the equipment during extended power outage. We provide cooling equipment and there'll be metallurgical upgrades, we think, also as part of the life extension of the existing plants. That will affect our potential product supply, as well. We thought it was going to be 12 to 18 months before we saw the effects of Fukushima come into the supply chain and, at this point, I'm still feeling that way.

Joe Mondillo: Okay. Has there been any initiation from that NRC report, or is it still in a stalemate in terms of initiating regulation?

Jim Lines: I think it's going through its laborious process, which is 12 to 18 months.

Joe Mondillo: Okay. And then the last question I just wanted to ask about was… are there any opportunities, specifically domestically, within the fertilizer industry? I know you had some in India, but maybe even elsewhere? There's a lot of capacity coming online in that industry and I was wondering if there's any opportunities there.

Jim Lines: That's a market sector that's keeping us extremely busy with bid work in Asia. There's some in South America and there's a little bit in North America. In terms of our bidding pipeline, there's a lot of work for fertilizer. And fertilizer has two aspects to it… there's an ammonia plant and a fertilizer plant; and both plants require our products. There's a very specialized technology in a fertilizer plant, where only three companies in the world – Graham being one of them – are the allowed suppliers, so we like the fertilizer market, and we're very actively pursuing those sales opportunities now. One of our sales managers is over with a licensor in Europe right now having conversations around upcoming projects and how we can position ourselves to take advantage of those opportunities as they come forward.

Joe Mondillo: It seems like, over the last nine to 12 months or so, you've really started to get some traction within overseas markets. Is the U.S. market just much more competitive, because I know with the nitrogen-based fertilizer, there's a lot of capacity coming online. Is it just a lot more competitive here at home?

Jim Lines: No, I don't necessarily think that's the case. As we went into the downturn and then around 2009, as we were right in the heart of the downturn, we had felt recovery for Graham, absent of the addition of Energy Steel, would be led by the Asian, Middle East and South American markets first, followed by the North American market, based on how we saw recovery in the North American market materializing. It's moving more slowly than the recoveries we've seen in the emerging markets. That's what we projected and that's how it's playing out. That doesn't suggest in any way that the North American market is more competitive than the international market. It's just the way that the recovery we felt would play out and how it is playing out. But we are seeing some improvement, of course, as we've said in the earlier remarks, about the North American market becoming healthier, so it's the timing of the recovery, to put it more succinctly, Joe.

Joe Mondillo: All right, great. Thanks a lot.

Operator: Your next question is coming from George Walsh with Gilford Securities. Please state your question.

George Walsh: Jim, when you have your section in the news release about sales by region, particularly the reference about the United States, is that the final customer for the project or is it really just who orders it?

Jim Lines: The way we define our geographic sales mix is by end use location.

George Walsh: Okay, good, so that's final end customer, right? Also, can you be a little more specific regarding your acquisition strategy, considering you have the good balance sheet and focus?

Jeff Glajch: George, this is Jeff. As we've talked about in the last couple of calls, we wanted to make sure we took the right amount of time to integrate Energy Steel before looking to the next potential acquisition, so we're relatively early in that process. We took a little bit of a pause for six or eight months post Energy Steel, so we're really early in that process and don't have a lot to report at this point.

George Walsh: Okay. All right, thanks.

Jeff Glajch: Thank you.

Operator: There are no further questions at this time. I will now turn the floor back over to Jim Lines for any closing remarks.

Jim Lines: Thank you. We appreciate your time this morning and for your questions. Again, we felt we had a very solid quarter. The credit goes to the management team and all the employees of Graham for great execution and their focus on meeting our customer requirements, improving our businesses, reducing lead time, and on quality and defect reduction. It's really taking hold and you're seeing it in our financial results, coupled with an improvement in our markets. We look forward to updating you on the January call regarding our progress. Thanks again. Have a good weekend.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and we thank you for your participation.