

Operator: Greetings and welcome to the Graham Corporation Second Quarter Fiscal Year 2013 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation, and 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, you may begin.

Deborah Pawlowski: Thank you, Dan, and good morning, everyone. We appreciate you joining us today with the Graham Corporation Second Quarter Fiscal 2013 Conference Call. On the call, we have James Lines, President and CEO, and Jeffrey Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and year-to-date period, and will also provide a review of the Company's strategy and outlook. There are slides on the Company website that accompany this conversation today. If you do not have them, you can find them and the press release at <http://www.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, which 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 on the Company's website or at sec.gov.

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

James Lines: Thank you, Deborah, and welcome, everyone. Please refer to Slide 4. We had a solid quarter, driven by very good execution, control of costs, and being able to pull work into the quarter from our third quarter. It was a challenging year-over-year comparison this quarter, due to the high quality of orders converted during the second quarter last year that were not reflective of true market and business conditions at that time. Upon reaching the midpoint of the year, we are tightening prior gross margin guidance by increasing the bottom end of the range; however, it remains within the range as earlier stated for guidance; and we are projecting a 100-basis-point increase to SG&A.

We were pleased with order activity in the quarter, quality and quantity of bidding activity, and we remain encouraged about market outlook over the next several years. Actions that management has taken, to be ready for an anticipated strong recovery, position us well to capitalize on increased demand.

Please turn to Slide 5. We had \$25.9 million in sales during the second quarter. Sales to the chemical and petrochemical industries were up approximately 50%, from \$5.6 million a year earlier. This is due to conversion of orders for the ethylene market for the US, Middle East and Indian installations. We also had a large order for China that contributed to the strong quarter, which was related to the ethylene market, as well. Refining and power market sales provided sequential growth; however, year-over-year, each was down due to an unusually strong quarter last year. Sales to the US were 59% of the total, with international sales at 41%. We do project, as we move forward, the geographic sales mix will generally be 50/50, international and US.

Referring to Slide 6, using the midpoint for revenue guidance, we are projecting 6.5% year-over-year growth, representing a 21% compound annual growth rate from the cycle bottom. Our businesses had capacity for a greater level of revenue; however, the market conditions and order rates nine to 18 months back were soft, which ultimately flows through as lower revenue levels

during the past two quarters. What is encouraging is that we have the capacity to do more and, the second-half of this year will begin to illustrate that.

Please turn to Slide 7. We had a good bookings quarter, with orders at \$25.6 million. The difference between a good quarter and a very good quarter for orders was three days. We expected to secure a large oil sands upgrader order in the second quarter; however, it wasn't finalized until October 3rd. The good news is we are off to a good start for the third quarter.

It is noteworthy to mention that, in the quarter, there were \$5 million in orders for the US refining industry, including one for re-refining recycled lube oil. Total refining orders globally were \$9.4 million, including orders for Indonesia, the Middle East, and Canada. We secured \$4 million in orders for biomass energy projects. We also secured roughly \$2.3 million in orders for the US Naval Nuclear Propulsion Program, including its submarine program.

Referring to Slide 8, the benefit of actions to diversify during the downturn are best shown by the level of backlog today, with the addition of a strong power market segment, as well as the impact of the Naval Nuclear Propulsion work that appears in the other segment. Backlog at the end of the last peak on March 31, 2009, was \$48 million, with approximately 80% being for refining and petrochemical markets. Today, our backlog at the end of September stands at just under \$92 million, with refining and petrochemical markets representing 47% of that backlog. The dollar value of refining and petrochemical backlog is similar at both points in time. This diversity will provide greater growth and lesser volatility from the cyclical nature of refining and petrochemical markets as we move forward. It is early to be thinking about the next downturn, but we are, and we also believe this diversity will enable us to have stronger earnings at the next bottom of the cycle.

With those remarks, let me pass it over to Jeff for more details on the quarter. Jeff?

Jeffrey Glajch: Thank you, Jim, and good morning, everyone. As Jim mentioned, we have some pretty tough comparables when looking at the second quarter of fiscal 2012, but you will see a nice step-up from the last two sequential quarters.

Starting on Slide 10, Q2 sales were \$25.9 million, down 23% versus last year's strong second quarter, but up 15% sequentially when compared with Q1 of this year. Sales in the second quarter were 59% domestic and 41% international. In last year's second quarter, the split was 53% domestic and 47% international. Graham's historic commercial markets continue to be tilted toward the international arena, while Energy Steel is primarily exclusively domestic, and the US Navy, of course, is 100% domestic.

EBITDA margin for Q2 was 15%, down from 26% last year, but up sequentially from 12% last quarter.

Q2 net income was \$2.6 million, or \$0.26 per share, down from \$5.5 million, or \$0.55 per share, in Q2 last year, but nearly double sequentially from \$1.4 million, or \$0.14 per share, last quarter.

On Slide 11, you'll see the gross margin in the second quarter was 30.5%, down from 38.1% in Q2 last year, but up sequentially for the second straight quarter from 25.6% in the fourth quarter of last fiscal year and 27.7% in the first quarter of this fiscal year.

SG&A was \$4.4 million in the second quarter, flat with Q2 of last year, but up sequentially from \$4.1 million in the first quarter of this year. The increase, compared to Q1, came through investments being made in our business to support future growth.

Operating margin was 13.4% in the second quarter, down from 25% last year, but, again, up sequentially for the second straight quarter.

On Slide 12, you'll see that our orders in the second quarter were \$25.6 million, up from \$23.5 million in the same quarter last year, and \$19.7 million in Q1 of this year. Our order level and sales were essentially even, with our book-to-bill ratio at 0.99. As we have discussed in the past, we expect this type of quarterly fluctuation that we have seen as a movement or timing of a couple large projects, as Jim mentioned, can dramatically impact a specific quarter. We continue to recommend that investors view a longer period of at least four quarters and perhaps longer to better understand the direction of our business. To that end, you can see that our orders over the past four quarters have averaged almost \$27.5 million, or a total of \$109.5 million, during that four-quarter period.

Our backlog at the end of September was \$91.8 million, down slightly from \$92 million at the end of June, as well as down from our \$94.9 million level at the end of March. We expect to convert 75% to 85% of this backlog to sales over the next 12 months. As you may recall, we have three large projects, the US Navy project and two domestic new-build nuclear projects, with multi-year lives, which make up approximately one-third of our backlog. Two of these projects, the Navy project and one of the nuclear projects, are currently in production, with the third project expected to start production in the next couple of quarters, but since all three projects have multi-year conversions, we expect a good portion of these projects to remain in our backlog for the foreseeable future.

Our cash position remains strong and has increased by over \$5 million in the first-half of this fiscal year to \$46.9 million. We continue to have a clean balance sheet with no bank debt. This allows us to focus on utilizing our cash, and, if necessary, our untapped line of credit for future acquisition activities, as well as internal growth and investment opportunities.

Finally, on Slide 15, this slide summarizes the first-half of fiscal 2013. Sales, gross profit and EBITDA are all down versus the first-half of last year. Again, this was expected, as the first-half of last year was very strong and not an indication of where the market was in its cycle at that point in time. I would note, however, that we have generated \$6.2 million in cash in the first-half of this year.

With that, Jim will complete our presentation by discussing our full-year guidance and providing some comments about our future growth opportunities.

James Lines: Thank you, Jeff. I am on Slide 17. Our guidance for full-year fiscal 2013 revenue is remaining in the range of \$105 million to \$115 million; gross margin tightened to be between 29% and 31%; SG&A is expected to be between 16% and 17% of sales; with an effective tax rate of 33% to 35%.

We have a very strong view of how our markets may recover over this cycle, due to the leading indicators that we see with the bid work we're doing and the conversations we have with our customers. Should the cycle recovery unfold as we project, we believe it will be possible for Graham to exceed \$200 million revenue at the top of the cycle.

Please turn to Slide 18. With our bid pipeline, we are expecting orders to continue to expand as we go into the remainder of fiscal 2013 and into fiscal 2014 and beyond. As we've said previously, we weren't waiting for this demand. We've made investments ahead of the demand that are affecting near-term profitability, but that has been the right decision for management to make, and we will be able to capitalize on a strong recovery that we anticipate will occur as the recovery unfolds. We do intend to advance our market share in our traditional markets of oil refining and petrochemicals, primarily in the emerging economies in Asia and in South America, we will maintain a strong market position in the Middle East, and we believe we will continue to dominate the North American market for refining and petrochemical projects.

With the team at our site in Lapeer, we will continue to expand our market reach, both within the existing utilities in North America and also moving into international markets. We're focused on the

Naval Nuclear Propulsion Program and developing that channel to be a more steady level of business for us. Jeff and his team are building the acquisition pipeline. Because we remain very positive on the outlook, while there is some uncertainty in the near-term, we will maintain our patience and discipline for order selection and price management.

With that, Dan, please open the lines for questions.

Operator: Ladies and gentlemen, at this time, we will 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 that your line is in the question queue. You may press star, two if you would 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 key.

Our first question is from Jason Ursaner of CJS Securities. Please proceed with your question.

Jason Ursaner: Good morning.

James Lines: Good morning, Jason.

Jason Ursaner: Congratulations on a nice quarter.

James Lines: Thank you.

Jason Ursaner: I just have a couple of questions. Within the guidance, on the SG&A part of it, upping the range to 16% to 17% of sales, last quarter, Jim, you talked a lot about the additions to the middle of the Company and, on this call, you talked more about the strategy to go after international work, the engineering and the build-to-design opportunity. You also moved up your gross margin and I know that your sales guys are partially benchmarked to that as a component in compensation. So, just what's driving the SG&A increase in that outlook, considering that it's a pretty big range?

James Lines: To a degree, Jason, it comes down to order selection and whether the orders are for a company account, where no commission is paid, or where there's a representative involved and commission is paid. What we're seeing in the second half is a sales mix that has a little stronger percentage of orders that have commissions being paid to our representatives around the world versus a company account. We also had a shift that, as we got into the Navy project, it has begun to slow down, not caused by Graham, but caused by our customers, and the Navy project has a lower commission level than we ordinarily would see. So, as the mix changed, primarily around commissionable and non-commissionable orders, it has lifted SG&A a lit bit. That can vary from time to time. We do expect that, as we hopefully drive revenue higher, we would be able to be at the lower end of the SG&A range. I hope that explains it a little bit better for you.

Jason Ursaner: Yes, understood. I appreciate the detail. Then, just a second question for me. You mentioned in the orders you received for the quarter that, I think you said, \$2 million of it was related to Navy submarine work. I just want to make sure I heard that right.

James Lines: Sure. I mentioned the business had secured just over \$2 million, \$2.3 million, in orders for the Naval Nuclear Propulsion Program, including orders for the Submarine Program. In rough terms, it was 50/50. We had received orders for replacement parts for equipment that we provided quite some time ago for carriers, and then we have secured a couple of orders for sub work, still in the engineering aspect of those programs, not for build, but they're very important orders. They're the important stepping stones to get to that point where we begin building equipment for Submarine Programs.

Jason Ursaner: Got it, and in terms of what's still out there on CVN-79... obviously, you didn't add it to your orders, but has there been any decision on the addressable content you have that's still out there?

James Lines: There was an order that we were pursuing that we did not win; we did lose it during the quarter. We did aggressively pursue it, but it was a build-to-print and the award was placed with the incumbent.

Jason Ursaner: and the relative size of that piece relative to the other ones that are still out there?

James Lines: It was relative to the size of the one we had secured. It was a couple million dollars to the large \$25 million order that we have for the CVN-79 project. There are a couple more items that could be available of a similar couple-million-dollar-size range.

Jason Ursaner: Okay. I appreciate the commentary and I'll let others have a chance to ask questions. Thanks.

James Lines: Thanks, Jason.

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

Chase Jacobson: Hi, good morning. Nice quarter.

James Lines: Good morning, Chase.

Chase Jacobson: Jim, first question for you... It sounds like this oil sands award that you mentioned could be pretty meaningful. Is there any other detail you can give us in terms of what project it's going to, or maybe what the size of it is, and does it speak to your confidence in being able to reach the \$30 million level of awards that you've talked about in the third quarter?

James Lines: Of course. Again, for the sake of three days, we would have been above \$30 million had that order closed in September like we had envisioned, but regrettably, it didn't. We could not control the timing any better than we did. There are only two upgraders that are currently active up in the Alberta area right now. In terms of EPC work and RFPs, request for proposals, this is one of the two. The other one is actively being pursued by us. The timing is not yet clear, but our team's been working on it. Honestly, to be candid, we've been working on these projects since 2007. They fell off the table, when the downturn occurred, and then they became active again about 12 to 18 months ago. Now, one finally moved to procurement and we landed it early in October. It does give us a positive sense that it's picking up again in Alberta, and we have a really good brand there. We have very good market share for this particular application, and what really is comforting is our people have been involved in these projects since late 2007, early 2008, and we feel pretty good about being able to pull in the future work.

Chase Jacobson: Okay. That's helpful. Then, another question on the SG&A... You have been talking for a little while about the potential for SG&A to go higher. On an absolute basis, it's trended up the last few quarters and the guidance assumes that it's going to trend closer to about \$5 million a quarter the second half of the year. Looking forward, should we expect it to stay around that level, on an absolute basis, and do you think that's the appropriate level -or- do you think that there's still a chance that it needs to go a little bit higher, if you want to take advantage of the market as best as possible?

Jeffrey Glajch: Chase, this is Jeff. With regard to the second half of the year, I'm not sure the \$5 million level, certainly averaging it the next two quarters, is likely. I think, if you look at the range we gave and the revenue range, we're not going to be at the top of the revenue range and the top of

the SG&A range, if they were both to occur, but certainly, if we were at the lower end of the revenue range, it might be more likely to be at the top of the SG&A, from a percentage basis. So, \$5 million, to me, is probably pushing it for the second half of the year.

On your other question, looking forward beyond that... We've talked about being in the neighborhood of around 15% of sales nominally going forward, and certainly in the near term, the next couple of years, we would expect that to be a reasonable thought process. And whether it's 15% or 16%, it's not enough of a difference to dramatically swing our profitability. Somewhere in the mid-teens is the place for us to be for SG&A, at least for the next couple of years, and beyond that, we'll see if there's any kind of a step function off of that.

Chase Jacobson: Okay. Then, the last question I'll ask is... given we're hearing from EPC companies about all the opportunities for petrochemical work in the US, have you seen any change in the competitive environment on those projects as it relates to your products?

James Lines: Chase, this is Jim. No, we haven't yet, primarily because those have not moved through the sales stages to get to firm RFPs. We are involved in some concept work for the ethylene projects, fertilizer projects, but I would characterize those as early stages, not yet at formal EPC or certainly not yet at RFP stage. What we're expecting is decent margin potential from this opportunity in the North American market for petrochemical work.

Chase Jacobson: Okay, I appreciate it. Thanks.

James Lines: You're welcome.

Jeffrey Glajch: Thanks, Chase.

Operator: Our next question comes from Brian Rafn of Morgan Dempsey Capital Management. Please proceed with your question.

Brian Rafn: Good morning, guys.

James Lines: Good morning.

Brian Rafn: Just give me a sense on the Ford Class CVN-79. Is that work specifically just condensers or are you doing other things on that ship?

James Lines: Right now, the order we have is for steam surface condensers, the order that we lost was for ejector systems, and there are some other smaller items that we could pursue that are for vessels or heat exchangers or small evaporation-type ejectors systems.

Brian Rafn: Okay. So, there are other things. Have you had any preliminary discussions on CVN-80 yet with the Navy?

James Lines: No, we have not. We still think that's a couple years out.

Brian Rafn: Yes, that's what I thought. They're just laying the keel on the other one. Go back to the Nimitz Class fleet carriers... When they come in for their 18-month overhaul in some of the legacy super carriers, is there any work to go back into? Because, certainly, the Enterprise is coming off, but there are going to be, for at least the next 20 plus years, Nimitz carriers still in the fleet. Is there any other work, ejectors, condensers, or such, in overhaul that you can do?

James Lines: Sure, Brian. In the orders that I mentioned in Q2 of about \$2.3 million, partly for the sub program, partly for the carrier program, we did receive an order - which happens about every couple of years - for replacement ejector systems for an earlier CVN carrier that we supplied 10-15 years ago.

Brian Rafn: Then, the same question on a legacy basis... At your Analyst Day, you talked about the Virginia Fast-Attack Class sub. How about some of the Legacy, like the Sea Wolf or the Los Angeles, Fast-Attack subs, do you do any work there?

James Lines: We have not, no.

Brian Rafn: Is that something that potentially is there, or is it just not big enough, or is that something where there are Legacy OEMs that really have that locked up?

James Lines: At this point, I would say the Legacy OEMs have good position. We've not really broken in, Brian, into the sub programs. Once we're into the sub programs, be it the Virginia Class or the Ohio Class work, hopefully we'll be able to be considered for this type of repair/replacement.

Brian Rafn: Okay. Once you get in, Jim, or as you get to penetrate the Virginia Fast-Attack Class sub, I believe you said there were two condensers per sub. Once you have the original OEM on that, when those subs come back in for overhaul, is there any sense that you'd get maybe a priority, or you'd have some benefit of being the original, to give you some follow-on annuity?

James Lines: We do view that there's opportunity there. Like on the carrier program, there will be some wear parts where, hopefully, we'll be able to enjoy replacement work, but there's a difference, though. A carrier has a life of 50 years. Subs don't have that lifespan. They're not in service for as long as a carrier.

Brian Rafn: Right. On the petrochemical side and the different projects, I'm assuming that most of that is new-build and it's also capacity-expansion-type stuff. If you look at some of the heavier industries, not specifically petrochemical, but steel or cement kilns, they'll do a lot of maintenance work when their industries cycle down. When you have condensers, ejectors, heat exchangers or vacuum pumps installed in some of these petrochemical plants, is there large maintenance work at all or is most of that petrochemical work primarily new build, new expansion capacity?

James Lines: As we think about the North American petrochem market and what excites us, it's around the new-build; however, as the industry gears up to again be a producer in North America petrochemicals, we have enjoyed some work around repair/replacement and upgrades of existing facilities to get onstream faster to take advantage of the lower cost natural gas. We have some work in our backlog right now that I would associate with that - revamp, restart, upgrades - but the real exciting part is the new-builds.

Brian Rafn: New-builds, yes, that's what I would have thought. You have \$200 million sales relative to the next cycle. How do you see the incremental increase, Jim, in headcount, whether it be engineering or sales? Where do you maybe have some bottlenecks, as you move from \$115 million up that sales curve to \$200 million?

James Lines: Sure. If we think of our headcount today, which is roughly 350/360 employees at all of our sites combined, with a run rate, as you said, of \$105 to \$115 million and as we move toward the \$200 million, which would comprise sub work, carrier work, our strong refining and petrochem activity, nuclear work, I would see our headcount having to expand by about 100 to 150 people. A good amount of that is in the direct costs, the direct labor area. We've taken some steps to build the middle of the Company ahead of the demand and there is some building that still needs to be done, but the large expansion of the workforce is on the production side, the direct labor side.

Brian Rafn: Okay. Then, regarding the footprint that we saw at Batavia, where you guys are, you showed us the brand new paint and sanding area. What is the physical structure for \$200 million in sales?

James Lines: We believe our rooflines, both in Lapeer and in Batavia, will be stretched, but they can get near to that \$200 million. We think the run rate through what we call the Batavia operations, including the outsourcing that we do, is somewhere between \$125 and \$150 million, with some cap ex around equipment, not so much roofline. At Energy Steel, when we bought the business in Lapeer, they had upper teens run rate, but we view that business as having physical plant assets good for \$40 to \$50 million.

Brian Rafn: Okay, all right, that's fair. One more... Given the massive size of some of the stuff that we saw, what are your freight costs like? Are they negotiated? Is that something you bear or do you put that in the contract, and what are you seeing in freight costs for moving some of these massive things around the world?

James Lines: Primarily for the international work, our freight term would be FOB port of export. We're talking about a \$100 million run rate, about 1% to 2% of sales for that type of freight. On the smaller short-cycle work, it is freight prepay and add or it's ex works.

Brian Rafn: I appreciate it. Thanks.

James Lines: You're welcome.

Operator: Our next question comes from Joe Bess of Roth Capital Partners. Please proceed with your question.

Joe Bess: Good morning, guys.

James Lines: Good morning, Joe.

Joe Bess: Jim, I had a question about the conversations that you've been having with your customers lately. You talked about some of them having their actions a little bit more tentative and also having customers whose projects are kind of passing that conception stage. Do you think the order activity is increasing at a quicker rate, given that these orders are kind of coming closer together, and what is your outlook for the growth cycle? Is it going to be a little bit quicker than you would expect or a longer process?

James Lines: That's a great question, the same question you asked me about a month ago. I think it's still too early, but what excites us is the fact that we're bidding these projects and we're seeing them move through their different stages. It's hard for us to say what the next one or two quarters look like, because, as we said, this last quarter was \$25 million, but for the sake of three days it could have been \$31 million, and that's meaningful. By and large, we're looking beyond the next couple of quarters and we remain excited. We have less certainty around what's happening, believe it or not, next week or next month, because of the tentativeness of our customers. We've been chasing some of these orders for quarters and even years, and it seems like each quarter they're telling us "it's going to close this quarter, get ready," and then we're talking about it again the next quarter. I'm not really giving you an answer simply because it's not clear to me just yet. I'm looking beyond the next couple of quarters and we are remaining very optimistic. We've taken action to get our businesses ready to capitalize on that with the investments that we've made, but near-term visibility is tough right now.

Joe Bess: Okay. Thanks. Then, I know you expect geographically for revenue to be split 50/50 long term. Are you expecting international order rates to increase in the near-term compared with US orders, or do you expect demand to kind of pick up in one market versus the other at the start of the growth cycle?

James Lines: If we put aside for the moment what may happen in North America around the petrochem market - and, again, we're very bullish on that, but we don't believe that's the next

couple quarters - we would say the growth rate from Graham's traditional markets, oil refining and petrochem, will be stronger internationally than domestically. Once we have more confidence in the timing and the pace of the North American petrochem renaissance, we could see the sales mix pull back toward more domestic, less international, for our traditional business of refining and petrochem, but it's too early to tell you when that's going to happen and how that looks.

Joe Bess: Okay, and then just a housekeeping item... Jeff, can you talk a little bit about the benefit that you had on the interest expense line this quarter?

Jeffrey Glajch: Sure. We had a couple of items around some tax issues with the IRS that were resolved, one of which was the R&D credit that we've discussed in the last couple of quarters. There was final closure on that. And then, there was another one just around a tax accounting change, a couple of things where we had accrued interest and, ultimately, the IRS did not charge us the level of interest we had expected to be charged, or they decided not to hold us accountable if they decided to audit a previous year with regard to that one accounting change. It's really around IRS interest that we had accrued, properly accrued, and the IRS decided not to charge us or gave us relief.

Joe Bess: Okay, that's great. That's going to be done now and we should expect interest expense at normal levels from here on?

Jeffrey Glajch: Exactly. They should be at lower levels than you've seen in the last six or seven quarters, because those couple of items are no longer accruing interest. We had a reversal of some of those accruals and then, going forward, the interest expense level should be significantly lower than what you've seen in the last few quarters. It should be a very small number.

Joe Bess: Okay, great. Thank you.

James Lines: Thank you.

Operator: Just as a reminder, ladies and gentlemen, if you'd like to ask a question, please press star, one on your telephone keypad.

Our next question comes from Joe Mondillo of Sidoti & Company. Please proceed with your question.

Joe Mondillo: Good morning.

James Lines: Hi, Joe.

Jeffrey Glajch: Hey, Joe.

Joe Mondillo: My first question, I'm just wondering how the gross margin in the orders has been tracking? Are we still sort of flattish, around that 30/31-ish range?

James Lines: I think that's fair, to look at it that way.

Joe Mondillo: Okay. Then, also, does the margin differ at all between any of the three or four different sort of main end markets that you sell into?

James Lines: It can. For refining, in general, that provides the best margin potential, with North America and Middle East having the highest margin potential and the rest of the world being down a little bit from North America and the Middle East. For petrochem, that's a little bit below refining and the same comments hold geographically. For power generation, primarily nuclear, which is mainly domestic, that has a margin potential that's comparable to our petrochem business. And the Naval work is right in the middle of that mix, between refining and petrochem, around petrochem.

Deborah Pawlowski: And, Jim, you would also add, wouldn't you, that it can vary a lot project by project, as well?

James Lines: Yes, that's correct, Deb.

Joe Mondillo: Okay, great. Then, just going back to that last question in terms of the US versus international, has that 50/50 or how you look at the business long term shifted at all over the last, say, 12 to 18 months?

James Lines: It really hasn't, Joe. The wild card, in our mind, is how the petrochem market in the US or North America begins to unfold and the pace of that. To us, that's pretty exciting. That could shift the sales mix to be more heavily weighted toward domestic. I do think that's a year or two out still, because of where these projects are, but everyone's pretty excited about it, as are we. We're ready for it, but we just need to see a little more traction.

Joe Mondillo: And that's the same on the refining side?

James Lines: Yes. Our team is pretty active on refining bid work around revamps, still preparing for alternative feedstocks, or pushing the refineries to produce more diesel or transportation fuels. We had a very good level of order intake last quarter. About \$5 million came from the US refining industry. It's great business for us, and we're seeing a good amount of opportunities in the repair and replacement of equipment that we had supplied 10, 15, 20 years ago, as, I think, the refineries prepare for a stronger economy.

Joe Mondillo: Okay. Are we at the very initial stages of these projects and how long do these projects take? Also, where do you guys fit in, in terms of that whole time period between start and finish?

James Lines: When we're doing our job right - and I think we do it most of the time correctly - we're involved very early. We define the sales cycle as having four distinct phases. We like to get involved in the very initial stage, which we call project concept. Then it moves on to front-end engineering design. We're seeing a lot of projects right in that phase one or phase two. Then it moves from the FEED work, front-end engineering design, to the EPC work. We have some projects in that stage right now. Then, ultimately, an EPC is awarded the work and we receive the Request For Purchase, final sales stage. That phase one through phase four cycle can vary, ordinarily, between six months to 18 months. As I mentioned earlier in the call, though, we've been tracking some of these projects since 2007 or 2008.

Joe Mondillo: So, it's not just six to 18 months, it can vary amongst a longer time period?

James Lines: Right. I've asked our sales guys to shorten it, but they haven't been able to.

Joe Mondillo: What's the volume of the project planning and new projects coming on board that you're hearing about? How is that trending?

James Lines: I would say generally, Joe, it's trending up. We see an expansion of our pipeline of bid work, which, again, gives us the confidence that the decisions we made 12 months ago - and are still making today - about investing in our business ahead of demand have been the right decisions. We missed it last time. In 2004 and 2005, we weren't ready. We're more ready this time.

Joe Mondillo: Production of oil in the US right now is at a 15-year high. It's really growing tremendously, given the fracking and other methods of drilling. You haven't seen a big jump or a big acceleration in these types of projects yet, though, is that correct?

James Lines: From a 30,000-foot level, probably not. We've seen an acceleration of bid work for what we call smaller projects, half a million to one-and-a-half million, which is very, very important. Those are great. We need quite a few of those to get a \$5 million aggregate order value, which is

what you might be accustomed to seeing from us, but what we're seeing is a good amount of traction on that smaller end of the work, which is transactionally simpler, order shift cycle is faster, margin is good. So, we're seeing more of that.

Joe Mondillo: Okay. Then, last question, regarding the chemical segment and, I guess, chemical/petrochemical... It's been sort of flattish. I mean, it seems like it's been improving over the last couple of quarters slowly. I know the agricultural industry in the US has been booming over the last couple of years and there are tons of projects in terms of fertilizer capacity expansions in the US. I'm just wondering what the opportunity is there and why we haven't seen a bigger jump in that segment yet.

James Lines: I just don't think, Joe, that it's moved through the sales stage yet. We're aware of all of those projects. There are half a dozen or so fertilizer projects for ammonia/urea plants. Our team is involved in discussions with the process licensors with the companies that we think will get the EPC work. It just has not moved yet, in general, to what we would call the very active stage of getting ready to buy equipment.

Joe Mondillo: Okay, okay. So, just a little early until benefits come?

James Lines: We think so. This is a market that we hope to do well in. In the 1970s and 1980s, our Company did very well with the ammonia expansion in North America. We have a great brand here, we're connected well to the process licensors, and I'm expecting that we'll be in a fair position to win a good amount of that work.

Joe Mondillo: Okay, great. Thanks a lot.

James Lines: You're welcome, Joe.

Operator: It appears we have no further questions at this time. I would now like to turn the floor back to management for closing comments.

James Lines: Well, we appreciate your time this morning and your questions. As you can tell, we're very pleased with where we are at the midpoint of the year and the optimism we see with the second half being stronger than the first half of the year. Ultimately, we're looking very positively toward the next several years as our markets begin to recover. If they recover as we anticipate, we're looking at a very strong growth cycle, one that we believe is possible to reach over \$200 million in revenue across our businesses. We will keep you updated quarterly on our progress. Thank you.

Operator: This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.