

Operator: Greetings and welcome to the Graham Corporation First Quarter Fiscal Year 2014 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. 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, Jen, and good afternoon, everyone. We certainly appreciate you joining us here today for the Graham Corp. First Quarter Fiscal 2014 conference call, as Jennifer already noted. On the call, we have James Lines, our President and CEO, and Jeffrey Glajch, our Chief Financial Officer. We'll have Jim and Jeff review the results of the quarter, and then we will open it up for Q&A. We do have slides associated to the commentary that we're doing here today, and if you did not get them, you can find them on the Company's website at 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 is stated here today. These risks and uncertainties and other factors are provided in the earnings release, as well as with other documents filed by the Company with the Securities and Exchange Commission. You can find these documents on the Company's website or at www.sec.gov.

With that, I'm going to turn the call over to Jim to begin the discussion. Jim?

Jim Lines: Thank you, Debbie, and thank you to everyone that joined our webcast to review first quarter fiscal 2014 results. Please refer to slide 3.

Our strategy across the next expansion cycle in our markets is to double organic revenue and exceed \$200 million in revenue at the next peak. We believe our focus in the energy markets with engineered-to-order, custom fabricated products and our commitment to the Naval Nuclear Propulsion Program will provide sufficient demand to realize this strategy. Our plans to accomplish this include taking greater market share in global refining and chemical/petrochemical markets; extending our supply to the Naval Nuclear Propulsion Program to include equipment for submarine programs; capitalizing on what is expected to be substantial investment in new chemical and petrochemical capacity in North America, driven by low cost natural gas; expanding our presence in power generation markets, including nuclear, geothermal, biomass and other renewable energies; and also putting our balance sheet to work to drive both organic growth and growth from acquisitions.

Please move on to slide 4. We had solid execution in the first quarter and are off to a good start for fiscal 2014. It was a terrific effort by the whole team. First quarter sales were \$28.3 million, up \$5.8 million from a year earlier. That is a 25.4% increase from last year, which was driven by the strength of global refining markets and a higher level of our short cycle sales.

Net income in the quarter was \$3.8 million, up from \$1.4 million of net income last year. The pipeline of bidding activity remains elevated and we believe our global refining and petrochemical markets are in the early stages of recovery. Seven hundred fifty million to \$1 billion is the range for our trailing 12-month total for bidding activity. I continue to believe this is a positive leading indicator for the direction of future orders and subsequent backlog expansion.

Please refer to slide 5. Sales for the global refining markets were \$12.6 million in the quarter. Backlog conversion of orders for Chinese refineries drove much of the \$7.4 million increase from last year. Chemical and petrochemical market sales were just under \$5 million, power industry sales were \$7.7 million and sales for the nuclear power generation market were roughly 70% of power industry sales. Fifty-three percent of sales were domestic and 47%, international. Sales to Asian end users were 23% of quarter sales, the Middle East was 5% of total, with Canada and Latin America making up much of the remaining international sales.

I am going to pass it over to Jeff for a more detailed review of the financial results. Jeff?

Jeff Glajch: Thank you, Jim, and good afternoon, everyone. As Jim mentioned, Q1 sales were \$28.3 million, up 25% versus last year's sales of \$22.5 million. Sales in the first quarter were 53% domestic and 47% international. In last year's first quarter, the split was 56% domestic and 44% international. Domestic sales increased to \$15 million compared with \$12.6 million last year. International sales increased to \$13.3 million from \$10 million last year, and as Jim mentioned earlier, the Chinese refining market was strong, accounting for the entire increase of international sales. While this market was strong in the quarter, this does not suggest a trend, but rather, it was simply the timing of projects which were converted in the quarter.

Gross profit increased to \$10 million from \$6.2 million last year. Part of the increase was due to the 25% sales gain and the rest was an increase in gross margin to 35.4% from 27.7% last year. The increase in margin was a combination of increased utilization from higher volume, an increase in short cycle sales and a stronger pricing environment. You may recall our gross margin in the last sequential quarter, the fourth quarter of fiscal 2013, was 34.1% and was driven by a high level of aftermarket sales. That did not quite repeat itself in this quarter, but rather, the higher margin of larger projects resulted in gross margins at a similar, actually slightly higher level, despite a 9% lower sales level than the fourth quarter.

As we have discussed in the past, our projects have a broad array of margins, and depending on which projects convert in a quarter, we can sometimes see swings in margins from quarter-to-quarter. This quarter represented a good mix of high margin projects. Looking at our current backlog, we do not expect margins at this level over the remainder of the year.

EBITDA margins in the quarter increased to nearly 22%, up from 11.9% in last year's first quarter. The step-up in gross margin of 770 basis points was three quarters of the improvement and lower SG&A as a percent of sales made up the remainder of the improvement. The SG&A leverage that we exhibited, as we saw SG&A costs increase only 8%, while our sales revenue increased 25%.

Net income increased to \$3.8 million, up from \$1.4 million, or \$0.38 a share, up from \$0.14 a share last year. You may recall last year that EPS increased quite dramatically as the year

continued. The comparison to last year's first quarter was relatively easy given where our business was operating at this point last year. The comps for the rest of the year will get more difficult.

Onto slide 8, please. We generated \$2 million of operating cash flow in the first quarter and have increased our cash and investments position by \$1.5 million to \$53.2 million. Increases in accounts receivable in Q1 temper the operating cash inflow as we completed a number of projects near the end of the quarter. I would expect the accounts receivable to work its way down in the next quarter or two, and we should see nice operating cash flows in the near term.

As many of you are aware, we take great pride in our cash flow metrics, where we have seen approximately 90% of our net income since the start of fiscal year 2006 add to our cash position, what we utilize as acquisition capital.

Finally, we have a clean balance sheet with no bank debt. This allows us to focus on utilizing this cash and, if necessary, our untapped line of credit for future acquisition activities, as well as internal growth and investment opportunities.

Jim will complete our presentation by discussing our strong order level in the first quarter, reiterating our full year guidance and providing some comments on our future growth opportunities.

Jim Lines: Thank you, Jeff. Please refer to slide 10. First quarter new orders were \$32.8 million, a 66% increase from the first quarter of fiscal 2013. This quarter's orders were also up 27% sequentially from the fourth quarter of fiscal 2013. It is important to note that, while total orders in the quarter were in the range of what we had expected, approximately half of the orders in the quarter came during the last two weeks of June.

We experienced an initial wave of orders for North American petrochemical/chemical new capacity. Orders were secured for ethylene, fertilizer and methanol plants. These are processes where our brand is extremely strong. Eighty-seven percent of the new orders in the quarter were for the U.S. market. That is disproportionate with what we expect over a longer evaluation period, however, it is indicative of the relative strength of the North American markets. It was encouraging to have this level of bids in our \$750 million to \$1 billion trailing 12-month pipeline convert to orders. Bidding activity is holding at this aggregate level, although we believe projects are moving forward toward placing orders at a more steady pace.

Onto slide 11. Backlog expanded to \$90.4 million as of June 30th. Backlog was evenly distributed across our key markets – 28% for refining markets, 24% for chemical/petrochemical markets, 19% for power generation and 29% for Naval work along with our other markets. 70% to 75% of this backlog is projected to convert over the next 12 months, 20% to 25% between 12 and 24 months and 5% to 10% after 24 months. We expect our markets will continue to improve, although quarterly order levels will likely fluctuate.

Slide 12. Fiscal 2014 guidance is unchanged. Revenue is projected to be between \$100 million and \$115 million; gross margin to be between 29% and 31%; SG&A as a percent of sales, between 15% to 16%; and an effective tax rate of 33% to 34%. Certain of the orders won this past quarter; we're early in the facility design phase. We don't believe engineering by our customers is finalized. That will affect when these orders convert to revenue. Our current

estimates on timing will require us to outsource certain work to meet those scheduled commitments, potentially impacting margins as compared with margins realized this past first quarter. We are reaffirming guidance and want to understand better the timing for executing certain first order orders, along with the level of orders in the second quarter before considering adjusting full year expectations. We will be in a better position to do that in late October.

Onto slide 13. Our strategic focus is on sustainable earnings growth, by taking greater market share, expanding into submarine programs and leveraging our balance sheet to drive growth. We're also focused on reducing earnings volatility through elevating the level of less cyclical orders, primarily our short cycle sales, and diversifying our customer base. We're also focused on improving operating performance. Keen focus is on error elimination, process improvement and aligning processes to reduce lead time, leveraging our existing physical plant assets and investing to improve productivity. Cash flow is a key focus area for us. The entire team is focused on this from a quoting process, where cash flow terms are negotiated, to operations, reducing lead time and working capital, through to collections.

A strong commitment remains focused on our customers and in developing our workforce. Our customer is first in everything that we do. We go to extraordinary lengths to be the supplier of choice by serving customers better than any competitor. Our employees make that happen. Our management process to engage employees in creating our success, and by having our Company be where employees want to build careers, has magnified our success and will drive it going forward.

With that, Operator, please open the line for questions. Thank you.

Operator: Thank you. Ladies and gentlemen, we will now be conducting a question and answer session. If you'd 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 the handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Paul Dircks with William Blair. Please proceed with your question.

Paul Dircks: Hello and congratulations on a nice quarter.

Jim Lines: Thank you, Paul.

Paul Dircks: So just a couple of quick questions from me here. First of all, obviously it was good to see some of the U.S. petrochemical/chemical projects come in for you guys during the quarter, and you noted the surge of work that arrived in backlog around the same time, at the very end of June. Did that surge in work all at the same time prompt the increase in the upcoming outsourced work, or was that always part of your outlook for this fiscal year?

Jim Lines: Well, quite honestly, the way the orders bunched up at the latter half of June caused that decision to occur. Bearing in mind, the level of orders is consistent with what we had expected for the quarter. Had they flowed into the business like we would have expected,

pretty evenly throughout the quarter, we wouldn't have had to address outsourcing as we have to at this point in time.

Paul Dircks: Okay, that's fair. Could you maybe provide a little bit more color on how exactly you are adjusting it through outsourcing, what facilities, and also maybe if there's an expectation on your part that, if this could happen again in subsequent quarters?

Jim Lines: Well, the outsourcing outlets that we will use are the traditional North American partners that we've used to help us in this regard, so there won't be any new suppliers or subcontractors as part of this. So it will be those that we've used in the past, they understand our quality requirements, our execution requirements and there is a familiarity between us and them. With regard to, is this part of our make-up going forward? It really came down to the consequence of a burst of orders coming in, in a short period of time with a similar delivery requirement that caused us to consider this level of stepped-up outsourcing. Again, had it been, Paul, a more uniformed flow of orders across the quarter, we wouldn't necessarily have had this issue, but it happened to come in, in a short period of time and this is how we're addressing it.

Paul Dircks: Understood. Two more questions, if I may here, one for Jim, one for Jeff. For you Jim, you know, obviously, you talked positively about the North American activity ramping. Could you maybe touch a little bit upon what you're seeing in a couple of your international markets, specifically in the Canadian oil sands and also in China, particularly after such a strong earnings conversion this quarter in China?

Jim Lines: For the oil sands, to be candid, last year we secured two large project work orders for oil sands upgraders, the North West Upgrader Project and CNRL. It's been our experience that, typically, Alberta only handles about one or two upgraders every 12 to 18 months, so we're not expecting to see much upgrading activity for one or two more years. On the oil sands extraction side, where we have an opportunity, we see that investment ongoing but it's moving rather slowly. So I do see the oil sands as being interesting but not as impactful as it was last year, in terms of order intake.

On the China side, they have come out with their 11th five-year plan, which is to expand refining capacity quite appreciably. There are a number of projects that are going to move ahead this fiscal year, where orders will be placed. That should be between two and five projects, and, in total, there's a three or four times multiple of that over a five-year period, so we're excited about the direction of China refining investment. Those are our state-owned enterprises. What we have seen in the China market is a bit of a moderating attitude for private companies that require financing. They're being a little more slow to move forward with the availability of capital, but much of our concentration had been on, and will continue to be on, the state-owned enterprises, Sinopec, PetroChina, CNOOC, as it relates to the refining market.

In the Middle East, we're seeing some early signs of initial bidding work, B-type work as we would call it, and there is one project that is at the procurement stage now for the Jizan refinery that perhaps would close over the next one or two quarters.

Paul Dircks: Okay, that's very helpful color. I appreciate it, and if I may, Jeff, one for you. Given the fact that the bid pipeline remains robust and that the expectation for orders to

continue coming in over the next few quarters is maintained, how would you characterize your appetite right now for acquisitions? Is it an ongoing process for you guys, or is it a process that perhaps you're taking a bit of a timeout until you see whether or not these orders come in, and, if so, at what rate?

Jeff Glajch: Paul, our appetite for acquisition has not changed. We still have the appetite. We'd like to move forward on something if we find the right opportunity, and the fact that we've had a step-up in the recent order levels does not affect that.

Paul Dircks: Fair enough, I appreciate the color. Thanks, guys.

Jeff Glajch: Thanks, Paul.

Jim Lines: Thanks, Paul.

Operator: Thank you. Our next question comes from the line of Dick Ryan with Dougherty. Please proceed with your question.

Dick Ryan: Thank you. Good afternoon, guys. Good quarter. Say, Jeff, if you look at the short cycle business that you talked about in the script, can you give us a level, a quantifier, how that did come in in the quarter and what impact that may have had on the gross margin?

Jeff Glajch: Sure, Dick, short cycle business was probably up about 25% year-over-year compared to the same quarter last year, and, as you know, our aftermarket business has a nice kick to it, the short cycle business was similar good but not as good as the aftermarket, but certainly that was a portion of our increase in margins. But I think the bigger portion of the increase in margins was the utilization and the pricing.

Dick Ryan: Okay. Short cycle, is there an approximate range what that represents per quarter?

Jeff Glajch: A typical quarter might be 25% to 30% of our business, maybe a little bit more. Yes, 25% or 30%, this quarter it was probably up in the high 30%.

Dick Ryan: Okay. Jim, the late quarter surge, can you put your finger on anything that really drove it? Was there discount pricing to get some of those projects in at the end of the quarter? How has the second quarter begun from an order standpoint?

Jim Lines: The surge of orders did not come from us incenting the customer to move in the quarter. It just seemed like it came together and there was a sense of urgency by our customers to get moving on these projects very quickly so they could lock down the suppliers that they wanted for their projects, and that's typically the turbo machinery, turbines and compressors. Our equipment is associated with that, so we tend to be in that critical equipment category. So we would liken it to a strong desire to make sure they lock down the right suppliers for their projects. Secondly, I think there is a perception that the costs are beginning to step up as the supply chain tightens and they wanted to get these projects in before that happened. Thirdly, recognizing that there are a number of competing projects, these particular customers wanted to get to the market first with their new capacity.

So those three things in combination seemed to be what drove the urgency; however, with that being said, we had projected much of this work to close in the quarter. It just happened to continue pushing to the right and ultimately was closed, a good portion of it, in the last couple

of weeks of June. So the level of orders, again, was not different from what we were anticipating; it just happened to bunch up at the end of the quarter.

As we move into our second quarter and we look at our active bids and our pipeline as a whole, we are expecting a good quarter for order intake; however, it has not kept the pace, nor did we expect it to keep the pace, which we saw in the last two weeks of June. That wasn't sustainable.

Dick Ryan: Sure.

Jim Lines: But the attitude of our customers and the people we are talking to for projects in the second quarter, we have a good level of confidence that there will be less level of activity this quarter, this current quarter.

Dick Ryan: Okay. On the power generation, Energy Steel, what's currently going on there? Are you seeing any uptick in any kind of maintenance and life extensions for the nuclear fleet at all?

Jim Lines: We haven't seen an uptick to speak of. There is still additional work to be procured for the Summer and Vogtle new power plants being built in North America. There are additional products to be bought there that we've done some bidding work on. With regard to the existing utilities, we haven't really seen any change there to their ongoing MRO. We are beginning to have some discussions around what they're going to implement as fallout of Fukushima to reduce a similar type of risk happening in a U.S.-based utility, so that should create some demand for Energy Steel or Graham's type of products. On the international side, there hasn't been much of a change from what we had been experiencing in the last 12 months.

Dick Ryan: Okay, great. That's it for me, thanks.

Jim Lines: You're welcome.

Operator: Thank you. Our next question comes from the line of Joe Mondillo with Sidoti & Company. Please proceed with your question.

Joe Mondillo: Hi, guys, good afternoon.

Jeff Glajch: Hey, Joe.

Jim Lines: Hi, Joe.

Joe Mondillo: First question, I just want to try to understand the guidance a little bit. So the gross margin guidance, I can sort of understand; it seems like even though your 12-month backlog is pretty much the same at the end of March compared to the end of June, it seems like it's right around that \$65 million mark, because of this rush of orders at the end of the quarter, it seems like it may be bogging down your operations just in terms of timing at the end of the year, which is translating into the fact that you guys are going to have to utilize outsourcing a little bit more than usual and that may be putting risk to the gross margin. First off, if you could confirm that, and if that is the case, then wouldn't there be higher sales at the end of the year? So my question would be: why wouldn't you increase the sales guidance?

Jim Lines: Generally, what you have said is quite accurate. We have a couple of competing aspects here. One is the impact of utilization and its effect on gross margin, depending upon how these projects flow through to revenue. We've modeled backlog conversion over the next 12 months based on the set schedules from our customers. We do recognize, however, though that certain of the orders that we did secure in this first quarter were before the EPC was even selected. They were post-feed but pre-EPC. We believe, from our experience, engineering is not frozen. That's going to result in some engineering churn on the part of Graham and the customer until the EPC settles on the final design and that will affect conversion. So we have that counter-balancing the strong order intake, and then furthermore, once we decide that it's important to outsource to meet our schedule commitment, it's hard to unwind that, once we get that into the supply chain. So we tend to have to make that decision early and structure our execution strategy for that particular order in that manner, and it's not really possible to practically unwind that once we get rolling on it.

That comment that we just made, Joe, pertains to the latter half of the year. As we look at the quarter we're going into, bearing in mind what the order level was four quarters ago, which was about \$20 million, at some point we have to bleed that through into revenue and that results in under utilization; and we can't necessarily shed those costs to correspond with utilization because we need those as we go into executing Q3, Q4, Q1 of '15 and onward. So we're at this point in time where business has to be structured for growth. We have a quarter or so to deal with that reflects lower order rates 12 months ago, and you put that all together in the mix and you have some margin compression as we go into the latter part of this year.

Joe Mondillo: Okay, so I understand the uncertainty in how the margin's going to fall out; it's just a little early to tell. How about on the top line guidance? You didn't change that as well. Is there maybe some uncertainty in terms of the exact timing? Is that the case in point, or why wouldn't you change it?

Jim Lines: That's my worry. My worry is from an experience that we've had with these types of orders; when they're issued this early, is while the customer has given us a purchase order with a certain delivery schedule, it just doesn't happen because engineering is not frozen. Not that we've done anything incorrectly; just the process design has not progressed far enough that design iterations aren't going to occur, which delays when we get those projects into production for revenue recognition. So we have that in our mind as what is a potential outcome, and we need one more quarter, Joe, to have more of an informed understanding of how this level of new orders in Q1 actually should begin to flow into revenue. So we're being a little cautious rather than get out in front of it and hope everything goes perfectly, because it never does.

Joe Mondillo: Okay, very understandable. Could you give us any insight on what the backlog looks like on how the next three quarters are going to weigh? Is it sort of a building up to the rest of the year seemingly at this point, or how do you think that shapes out?

Jim Lines: I don't believe it's a uniform conversion. Again, going back to what we mentioned a moment ago with regard to a softer bookings quarter one year ago, that will show up and it's going to likely show up in our second quarter and a little bit into our third quarter. So we would expect to see a ramp up as we get into, halfway into our third quarter and into our fourth quarter, with not a similar level of sales in our second quarter.

Joe Mondillo: Okay. And then just on the gross margin that you saw in the first quarter here, I just want to make sure I understand the strength there. In your prepared remarks, you mentioned higher margin of the larger type projects drove the sequential improvement, and then in the press release, you spoke about improved production cost absorption, even though the volume was down from the fourth quarter. So I'm just wondering, you know, was there some sort of change operationally where you were able to get that cost absorption, or is it more so a product mix?

Jeff Glajch: Joe, the comment about the cost absorption was not sequential quarter but rather, this quarter versus the first quarter of last year.

Joe Mondillo: Okay. And then my last question, I was wondering if you'd just provide an update on the Naval submarine program and the opportunity there?

Jim Lines: We still see that progressing well. On the last conference call, I had indicated that we would expect to get an indication this fiscal year that we've broken into the submarine program or not. We feel confident that we will, and we think the timeframe is this year. That validates the strategy is reliable and it's going to be actualized.

Joe Mondillo: And would that be, so by this calendar year or is it the next couple of quarters, or is it by the end of next March that we should have a better idea?

Jim Lines: Sorry, Joe, it will be the next couple of quarters.

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

Jim Lines: You're welcome.

Operator: Thank you. Our next question comes from Jason Ursaner with CJS securities. Please proceed with your question.

Jason Ursaner: Good afternoon. Very nice quarter. Just following up on the expectations for continued order intake, I understand the commentary on the last couple of weeks of June and that that portion of orders wouldn't sustain at that level, but how much did that absorb the near-term pipeline? And as a total level for the entire quarter, you know, why would you not expect Q2 to see sustained strength from the petrochem market, you know, at or near, at total level, not necessarily linear, but as a total, given the overall level of investment going on across the country?

Jim Lines: Sure. I may not have answered Dick's question well. My comment was bearing in mind that almost half of Q1 bookings came in in the latter half of June, that did not sustain itself going into July. That comment did not suggest we're concerned about not being able to achieve a similar level of order intake in Q2 as a whole.

Jason Ursaner: In the petrochem market, or across all your markets?

Jim Lines: Across all of our markets. With petrochem being strong, continuing to be strong, there's more work in Q2 that's expected to close. So my comment really related to the burst in the second half of June order intake wasn't carrying into July, nor do we expect it to, but the level of opportunities that we're projecting to close in Q2 are comparable to what was realized in Q1.

Jason Ursaner: Okay, and a question on the SG&A. You talked about the pre-investments in the middle of the Company and in operations and engineering. Do you see these as being completed at this point, and how much additional headcount might you need to add as you move closer towards the middle or upper part of the cycle?

Jim Lines: We've done well to get at that during the last couple of years. We've added 29 people last year. Over the last two years, we've added 45 people. As we look at our strategies for fiscal '14, we expect to be somewhere between 10 and 20 more people to be added to the Company and then after that, it hopefully is, on the indirect side less, certainly more like one or two as opposed to the numbers that I've just cited. So there are more additions that we're contemplating and that we plan to do in '14 as we gear the business up to capitalize on what we can see, and what we believe is an incredibly strong opportunity, principally coming from our home court, the domestic markets.

Jason Ursaner: And excluding Energy Steel, how would headcount at this point compare to sort of where it was at the last, upper end of the cycle, would that necessarily factor in given the size of the cycle that you talked about?

Jim Lines: Sure. If we think about where our headcount was in 2009, the last peak, Batavia—the core business headcount, excluding Energy Steel, is comparable to that level of headcount. Now, you need to bear in mind that we don't have the pricing environment now that we had in 2009, so for a similar level of revenue, we're executing at a higher throughput.

Jason Ursaner: In just looking at where your headcount is and the outsourcing versus potential capacity expansion, there's some comment in the press release that cap ex could potentially exceed the range if market conditions warranted. What would the cap ex budget need to stretch to if you, you know, felt the level of orders was more sustainable and wanted to capture it more internally?

Jim Lines: We've noted, right now, \$3.5 million to \$4.5 million; it could be \$6 million to \$7 million, that order of magnitude. And again, we're making that comment because we're so thrilled with how we see the market evolving and the opportunities setting up that we want to capitalize on all of it, and an investment such as what would move us from \$3.5 million to \$4.5 million to \$6 million to \$7 million would facilitate that, being able to take greater share.

Jason Ursaner: Got it. And just the last question from me, can you give a brief overview again of what drove the pricing environment in '09 and sort of where that is relevant today and where you see today trending given the capacity that is out there between you and your various competitors?

Jim Lines: The pricing environment that actually was in calendar 2007 and 2008 that allowed us to realize that performance in 2009 was extraordinary, and it was driven off of; so much work was coming so quickly that the supply chain couldn't handle it and costs got out of control through the whole supply chain. Carbon steel jumped from, over that cycle, \$0.22 a pound to \$0.45 a pound to \$0.85 a pound when we ended the cycle. Nickel went from \$5 a pound to almost \$20 a pound for our stainless steel alloys. Direct labor was not available; you couldn't find a welder and they were costing a lot of money. Execution skill sets, engineering, administration skill sets weren't available, so everything got very tight too quickly and the pricing got out of control, and I think, to a degree, that brought the early demise of that

expansion cycle because projects, when they were funded and when it actually had the final investment decision to be made, were quite a bit higher than the budget and that became really not palatable to the end user.

So that was a very unique confluence of a number of things that came together that created an extraordinary environment for us as a supplier, and I think we did a pretty good job to understand that and serve our customers well and also serve ourselves well. I think we're not yet at that point, what I would characterize as a white hot market environment. Yes, we had a burst of business. If this would take the typical expansion profile that we've seen, we're maybe one to two, perhaps three years away from that.

Jason Ursaner: Okay, great, I appreciate all those details. Thanks.

Jim Lines: You're welcome.

Operator: Thank you. Our next question comes from Jon Braatz with Kansas City Capital. Please proceed with your question.

Jon Braatz: Good afternoon, Jim, Jeff. Great job

Jeff Glajch: Hey, Jon.

Jim Lines: Hi, Jon.

Jon Braatz: A question from a longer-term standpoint; when you look at your bidding activity in the projects out there, are you bidding on work or seeing work on projects that may have, let's say a start date in 2015? I'm trying to get a sense on the duration of sort of the orders and the bidding work that you're doing.

Jim Lines: Oh sure, absolutely. If we look at and think about it in this context, a Greenfield ethylene plant, new capacity, that actual start-up is probably a '16, '17 start-up today.

Jon Braatz: Okay.

Jim Lines: And for a fertilizer project, ammonia-urea, that could be 30 to 36 months out.

Jon Braatz: Okay.

Jim Lines: We are bidding projects that would have a commercial start-up for the end user that are unlikely, with new capacity, I just want to put that in context, if it's a revamp, that can happen in '15 or '16; if it's new capacity it's typically start-up in '16 and '17.

Jon Braatz: Okay. Speaking of fertilizer, out here in the Midwest, we sort of scratched our heads when we saw all these proposed fertilizer plants, thinking the fertilizer industry would once again destroy itself, and you mentioned that you got a couple of orders from fertilizer facilities, I think some Greenfield and some expansion. Have you seen any fertilizer plants that were planned, being postponed, delayed, or cancelled, or anything to that extent?

Jim Lines: We did. Public domain information around Agrium and Yara Belle Plaines.

Jon Braatz: Okay.

Jim Lines: They've elected to abandon their projects due to costs beginning to rise, and being late to market or too much capacity coming on to the market at the same time, they felt they missed it.

Jon Braatz: Okay. Have you seen anything like that in any of your other markets? As you indicated, late coming to the market, have you seen anything like that in any of the other markets you serve?

Jim Lines: In our classic petrochem, again, this is public information, PetroLogistics on the propane dehydrogenation project pulled away from that because they were going to be late to market.

Jon Braatz: Okay. All right, thank you very much, Jim.

Jim Lines: You're welcome.

Operator: Thank you. Our next question comes from the line of Tom Lewis with High Road Value Research. Please proceed with your question.

Tom Lewis: Hey, guys, nice job.

Jim Lines: Thanks, Tom.

Jeff Glajch: Thanks, Tom.

Tom Lewis: Sure. Yes, really just one little question left, and as far as the discussion of pricing as a positive factor in your gross margin. Can we assume that short cycle business, or the pricing there is more dynamic, more short cycle say, than in your other business? And can we infer from that that, if so, that you are seeing a pricing heating up on a short cycle basis?

Jim Lines: We have seen pricing improve in general on the short cycle business. A comment there though, and I'll draw the comparison to the larger project, those prices tend to be much more predictable and less varied. When we move over to the large project work, the fertilizer, ethylene, propane dehydrogenation, those big projects, and refining work, those have widely varied margins because they're so situational to end user, competitor, EPC and there's an OEM between us and the end user, so the margins are far more varied on the larger work. The short cycle work is much more predictable in its pricing at a given point in time.

Tom Lewis: I'm assuming that's because they tend to be simpler, cut and dried projects as opposed to, as you say, situational.

Jim Lines: I think that's a fair way to characterize it.

Tom Lewis: Okay, well that was more helpful than I expected. Thanks a lot, guys.

Jim Lines: You're welcome.

Operator: Thank you. We have a follow-up question from the line of Dick Ryan with Dougherty. Please proceed with your question.

Dick Ryan: Sure, thank you. Say, Jim, in one of the strategies to double the Company on the next sub-cycle, you talked about share gains. Has anything like that occurred with the Q1 order patterns? And if I recall, as a second part, you had a pretty good batting average in the Chinese refining market. Can you refresh me what your kind of track record is there as well?

Jim Lines: Sure. In the China refining market, since we entered that market in 2006, prior to that, we had zero market share. Of the refining work that was placed since 2006, we nominally got 50% of it. Over the last four years, we got between 50% and 75% of it, for the large ejector systems; that was what we were focusing on. When we go toward a discussion about domestic petrochem, ethylene, fertilizer, methanol, domestic market expansion, we would typically expect a greater capture rate than we do on average because it's our home turf, it's where our business grew up, and we have an incredibly strong brand and, would expect to have a better real conversion rate, real capture rate than we would do on a global basis.

So we're expecting to grow, have share improvement, because bearing in mind, for the last 10 years, probably the last 15 years, there was none of this type of work in the North American market to speak of, so it's a little different and very advantageous for us because of those dynamics I just said. If we think more broadly about the rest of our global markets, petrochem and refining, our share of the addressable market is probably in the 20% to 40% range depending upon which product and which end use market, so we have some runway for taking more share there, and that's what we plan to do.

Dick Ryan: Okay, great. Thanks.

Jim Lines: You're welcome.

Operator: Thank you. Ladies and gentlemen, at this time, I would like to turn the floor back to management for any closing comments.

Jim Lines: We thank you for your time this afternoon and your questions. We're pretty excited about how well the first quarter results set us up for the remainder of the year, along with the level of order intake in Q1 and, again, the great pipeline of opportunities that we have in front of us. We look forward to updating you on our progress of capturing more business, understanding the conversion timeline from what we booked in Q1 during our October conference call for the second quarter results.

Thank you again. Have a good afternoon.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.