Operator: Greetings, and welcome to the Graham Corporation's Fourth Quarter 2011 Quarterly 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, Ms. Deborah Pawlowski, IR for the Graham Corporation. Thank you, Ms. Pawlowski, you may begin.

Deborah Pawlowski: Thank you, Christine, and good morning everyone. We appreciate you joining us today on Graham's Fiscal 2011 Fourth Quarter conference call. On the call, I have with me today Jim Lines, President and CEO of the Company, and Jeff Glajch, Chief Financial Officer. Jim and Jeff will be reviewing the results of the quarter and also provide a review of the Company's strategy and outlook. On our website at *graham-mfg.com*, you will find both a news release as well as supplemental slides that are posted there. Jim and Jeff will be referring to the slides during the formal part of their discussion.

As you are 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. Please turn to slide four. We feel the Company performed very well during the quarter, and we also had the full benefit of Energy Steel in the quarter. I was very pleased with order development in the quarter. Orders through the quarter were $26.8 million, of which about 20% came from Energy Steel. We did win two geothermal power plant vacuum system orders. Both are for Asia.

Continuing with our focus on North American renewable power, we won two bio-mass energy projects in the quarter. Also, we had a very nice level of new orders that we refer to as our short-cycle business. These are orders that typically come in and convert to shipments within one week to three months. Compared to where we had been through the downturn, which averaged about $4 to $5 million in a quarter, this past quarter, the short-cycle bookings were about $7 million so that was a nice upturn for us.

Also in the quarter, we won new orders for two refining projects; one in North America and one in Asia. Both of these are not for transportation fuels, but rather for lubricating oil products. You can see that we also had a geographic split with 50% of the bookings domestic and 50% international.

For sales, we had a very strong quarter. Sales came in at $25.9 million with Energy Steel contributing just over $5 million. We continued to have sequential sales growth quarter-over-quarter. Again, because of the short-cycle bookings that we had in the quarter, we had a lift to our sales from that segment of our business. We also began production on the Navy contract, which lifted our sales above what our prior guidance was for the quarter.

Margins: We're very pleased with the profitability in the quarter. Gross margin for the quarter came in at 30.5% and EBITDA margin at 18.1%. This is driven off of improvement in our capacity utilization for the Batavia operation. We're becoming more loaded in our production area. We also have the benefit of the short-cycle sales. Those tend to have a higher margin than do our major orders. We're beginning to work through the backlog that was won at a time that we referred to as the bottom of the cycle, where margins were lower, and we're starting to bleed in some of the higher-margin work from our backlog into sales.

Turning to slide five, summarizing the full year, we saw progressive improvement in the market conditions throughout the year, particularly with orders. It was a rough first half for us. First-half bookings came in at $18.6 million. Second half was much better. Organically, compared to the $18.6 million, organic bookings were $38.5 million, plus an additional $6.1 million from Energy Steel. So that was a nice improvement between the first half and the second half of the year. Organic bookings increased 10% year-over-year. Because of our view towards improved market conditions, we're also adding personnel into both Energy Steel and into the Batavia facility to drive growth through 2012 and beyond.

Considering all the factors that we were facing, I was very pleased by the way our company executed through the downturn, and as we exited the downturn in the second half of the year and delivered what I feel is a fine level of performance. Sales for the year were $74.2 million, with net income at $5.9 million. Both were a little bit above our guidance and that was because of the strength of the fourth quarter. Gross margin came in at 29.4%; EBITDA margin, 14.1%. If we do net out the acquisition expenses related to Energy Steel, the EBITDA margin would have been 15.1%. Also entering fiscal 2012, we have a very healthy backlog at $91 million.

On to slide six please. Segmenting our sales, for the full year, 55% of our sales were for international end users and 45% domestic. As we have a full year of Energy Steel in fiscal 2012, we would expect this to move closer to 50% domestic, 50% international.

Sales by market: Oil refining still was a key driver of our business a little over one third of our sales mix. Power, with the addition of Energy Steel for the last quarter and chemical processing were about 22%, each; and other markets, including the Navy contract, comprised 21%.

On to slide seven. Here's a quick update on the Energy Steel acquisition. I've been very pleased with the progress we've made in integrating Energy Steel into our business. We identified early on in speaking with Energy Steel that we shared a similar culture and values with respect to service to our customers, pride in the company, excitement about the business; and subsequent to the acquisition, we've seen no change. We have had no surprises. It's been a wonderful acquisition through the first three-and-a-half months and I'm very positive about the outlook of Energy Steel as we work with them to grow the business. They also have a very solid management team.

The contribution of Energy Steel to our fiscal 2011 results: Orders were just over $6 million; sales $5.8 million; and backlog on March 31 stood at $8.4 million. I'm also very pleased that after three-and-a-half months, when we include the expenses related to the acquisition and amortizing certain expenses related to the acquisition, Energy Steel did contribute to our earnings in fiscal 2011.

The question that might be on your mind is what's the impact of what's happened in Japan on the nuclear market and our strategy? You might recall when we discussed our strategy related to Energy Steel, we were focused primarily on the existing fleet of nuclear plants in the U.S. market, and we saw additional avenues of growth around new construction in North America and new construction in the international markets. With regard to the first and key driver, the existing plants in the U.S., we see no change. Actually, we may benefit from that about 12 to 24 months from now as the impact of what occurred in Japan, and changes that have to be incorporated into the U.S. plants because of that, make their way through the supply chain toward Energy Steel. So we're expecting some lift, potentially, from what happened in Japan as existing plants have to make investments.

What we have picked up, with regard to new construction, is to expect some delay for many of the plants that were on the table to be built. What we're hearing is to expect a couple of years of delay, depending on how far along the plants were in the licensing process. We do feel, however, four of the plants are progressing. We are involved in some bid activity, and should those projects continue to proceed as planned, there's a great deal of opportunity for us there. In the international market, from the customers we've spoken with, there will be a pause, we think, in the investment for new construction. We do feel, long-term, nuclear energy will be in the energy mix of many of these countries as well as the U.S. and that there will be a timing delay around progressing to new capacity. All-in-all, I have no concerns with what's occurred in Japan with respect to our modeling and our investment in Energy Steel. Quite the contrary, I'm very excited about the growth potential that we have there and our ability to expand that business and generate profitability for the Corporation.

On to slide eight. Our guidance for fiscal 2012: At this point, we're expecting our sales to expand 30% to 40% or to $95 to $105 million, up from $74.2 million last year. Of that, we're projecting Energy Steel will be 16% to 20% of that total sales amount. The organic growth rate is in the range of 20% to 25%. Gross margin: Our guidance at this point is between 29% and 32%. We do see upside. The market environment seems robust to us from the amount of bid activity that we have in quotations that are in our pipeline. We're uncertain as to the timing of when some of those will proceed, but we have capacity to execute and we have an aggressiveness to win the business and expand to beyond the $105 million if order rates allow us to, both at Energy Steel and at Graham.

Some challenges that we face: Right now we're in a very good position for the first half of the year, actually, right where we want to be. Our Batavia operation is near fully loaded and we have a good amount of subcontracting for the first half of the year. So, our first half of the year for all intents and purposes is teed up very well. We have capacity in the second half of the year in the Batavia operations. Obviously our capacity utilization right now looks to be between 60% and 70%. We do have a good amount of subcontracting already in our backlog as well for the second half of the year. It will come down to the order rate, this quarter and next quarter, to fill up the second half of the year.

We're positive because of the amount of bid activity we have and the time we have to fill in the rest of the year. Where we are right now, looking at our second half of the year that is 60% to 70% loaded, is pretty customary for the first month of the fiscal year to be at that level. So we're not worried about it, we have a great first half, and we have time to work on filling up the second half and pushing beyond this guidance that we've given today. As you might recall from the guidance that we gave in the past years, as the year progressed, we typically adjusted our guidance upward as we have a better sense of the back half of the year.

Long term, we see our markets generally improving. We see a lot of activity in the refining space. We're beginning to see activity now in the oil sands area for upgraders. There's also a fair amount of investment that's planned for the extraction side in the oil sands. You might recall that we had won a very large order about six months ago, our first order on the extraction side in the oil sands. So we think there's a great opportunity there for us to expand our sales over the next few years. Petrochemical markets are beginning to feel much better. I'm also very excited about our Navy program. That is a longer-term process for us. We will have contribution in fiscal 2012 from the Navy program, but longer term, as we get into fiscal 2013, 2014 and 2015, I'm very optimistic about our strategy with the Navy.

Slide nine is just recapping our actions to drive sustainable growth in Graham. We're focused on the naval nuclear propulsion program, not just with carriers but with other vessels. I'm exceptionally pleased with our progress there. As the shipyards come through to evaluate Graham, as the Navy comes through to evaluate Graham, each and every time they've been very impressed by our personnel, our capacity to execute very complex projects, our focus on operations on workflow, quality control, and safety. We get very high compliments every time they come through, so we're very excited about that.

With regard to Energy Steel, as I said earlier, I'm very excited about the growth potential around the existing plants in the U.S. market. Our Batavia operation is also undergoing certification to be able to build nuclear-quality products in Batavia.

Our strategy to position our company and to win in the renewable energy markets in North America has taken off very well. We continue to win business here. We won two orders in the last quarter for renewable energy in the North American markets. We also are improving our flexible cost model by expanding our ability to build our products in other locations. We have methods now in place for building in South Korea, in China, and in India. We have several subcontractors we work with in North America. That's what enabled us to get through the downturn the way we did and that's also allowed us to expand the way we did in fiscals 2008 and 2009. I'm very excited about where our business is as our markets recover and with our ability to grow, I think faster than we did last time, with the avenues of opportunities that we've put in place through the downturn and the addressable market expansion that we've focused on through the downturn.

We've also thought about the sales mix changing and becoming more internationally aligned. That has some margin compression. We've looked at strategies to improve productivity, reduce lead times, minimize waste to hold our margins, if not improve our margins in the face of margin compression from the international sales mix. As I said earlier, we're also investing ahead of demand in our business to be able to capitalize on the market recovery faster than we did last time.

The one thing I was disappointed about in the last growth cycle, that became readily apparent in 2006 and 2007, is that we weren't ready. We were growing too slowly. The market demand was ahead of our execution capability. We spent the last four years focused on that, so that we'll be able to grow in the up-cycle, I believe faster than we grew last time.

With that, I'll turn it over to Jeff for a more detailed review of the quarter. Jeff?

Jeff Glajch: Thank you, Jim, and good morning everyone. As Jim mentioned, we had a strong finish to fiscal 2011.

Sales in the fourth quarter were $25.9 million, up $13.8 million or 88% compared with Q4 of fiscal 2010. Organic growth was up 51%, with the remaining $5.1 million coming from the Energy Steel acquisition. Q4 sales were also up $6.7 million sequentially from Q3. Approximately one third of that gain was organic and the rest was the increase of Energy Steel. Sales in the fourth quarter were 52% domestic and 48% international. While Graham's historical markets continue to be tilted toward the international arena, Energy Steel is almost exclusively domestic. Organically, sales were 60% international in Q4.

Full-year sales were $74.2 million. Organic sales were up 10% to $68.4 million, with the remaining $5.8 million coming from Energy Steel. For the full year, 55% of sales were international, which is equivalent to fiscal 2010.

Q4 net income was $2.7 million or $0.27 a share, up from $600,000 or $0.06 a share in Q4 last year. For the full year, net income was $5.9 million or $0.59 a share, and $6.4 million or $0.64 a share, when excluding the acquisition transaction cost. The $6.4 million level was equal to fiscal 2010. As Jim mentioned, we are pleased that in the three-and-a-half months since Graham purchased Energy Steel, Energy Steel has performed above our expectations. Energy Steel has been accretive in the fiscal 2011 earnings, even when including the $0.05 per share of transaction costs.

On to the next slide, orders in the fourth quarter were $26.8 million, up from $18.3 million in the fourth quarter last year and up sequentially from $17.8 million in the third quarter. Included in the Q4 orders were $5.3 million from Energy Steel. Full-year orders were $63.2 million, down from the record $108.3 million in fiscal 2010. As Jim mentioned, fiscal 2011 was a tale of two halves for orders. Orders in the first half of the year were $18.6 million, wherein the second half they were more than double at $44.6 million.

Backlog at the end of March 2011 was $91.1 million, up slightly from $90.5 million at the end of December. One note is we have no orders on hold by our customers. The last order which was on hold, for just over $1 million, was reinitiated by the customer in April.

Gross margin in the fourth quarter was 30.5%, down slightly from 31.1% in Q4 last year but up from 24.7% in the sequential third quarter.

SG&A was 15% of sales, down from 22.5% in last year’s fourth quarter and down slightly from 15.2% in Q3.

Operating margin in the fourth quarter was 15.4%, up from 8.6% in last year’s fourth quarter and 9.5% sequentially.

Full-year gross profit was 29.4%, down from 35.7% last year, as we converted orders received during the very competitive pricing at the bottom of our markets nine to 12 months ago. As Jim mentioned, we expect 29% to 32% gross margins in fiscal 2012. In addition, we continue to expect at the peak of the next business cycle that margins will increase to the mid to upper 30s.

SG&A was 16.7% in fiscal 2011, when excluding the Energy Steel acquisition transaction cost. This was down from 19.4% in fiscal 2010. For fiscal 2012, we expect

SG&A to be between $16.5 and $17.5 million as we add the full-year impact of Energy Steel into our cost base.

Full-year operating margins were 12.7%, excluding the acquisition transaction cost, down from 16.1% last year.

This next slide is a slide that we've shown in the past that shows the sales and EBITDA margin performance over the past couple of cycles. You can see the significant step-up in EBITDA margins at both the top and the bottom of the recent cycle when compared with prior performance. We believe we've raised the bar on performance and expect to continue at this higher level moving forward.

On to the last slide, our cash position continues strong with $43.1 million of cash and no debt. In fiscal 2011, cash was used to purchase Energy Steel as well as to lower our excess customer deposits, which we've talked about quite a bit over the past many quarters. Those deposits have come down as they have been used to procure raw material for projects.

We believe with our balance sheet, debt free, and with this $43 million of cash we are well positioned to utilize the cash for future acquisition opportunities when they become available. As Jim mentioned, we are very pleased with the acquisition of Energy Steel, its performance, the strength of its management team and its nice cultural fit into the Graham family. The smooth combination of Graham and Energy Steel is a testament to both organizations.

One additional comment on our cash position; at year end, our customer deposits were still elevated above normal levels by about $4 million to $6 million. However, on the asset side of the balance sheet, we also had an offsetting increase in unbilled revenue as projects which are in process now have yet to be shipped. We expect the unbilled revenue to convert to cash over the first half of fiscal 2012.

Finally, to reiterate Jim's comments on fiscal 2012, we expect revenue to grow approximately 30% to 40% and be between $95 and $105 million. Of this growth, it will be roughly equally split between organic growth and the full-year impact of Energy Steel. Energy Steel is expected to provide 16% to 20% of Graham's overall revenue in fiscal 2012.

Gross margins are expected to be between 29% and 32%. The benefit seen from increased capacity utilization is partly dampened by increased personnel cost as we plan for further growth beyond fiscal 2012.

SG&A is expected to be $16.5 to $17.5 million as we incorporate Energy Steel for the full year, as well as invest in personnel to grow moving forward.

Tax during fiscal 2012 is expected to be between 33% and 35%. Also, we expect to spend between $3 million and $3.5 million in capital in fiscal 2012, which is above the $2 million we spent in fiscal 2011.

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

Operator: Thank you. 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 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 keys. One moment, please, while we poll for questions.

Thank you. Our first question is from Rick Hoss with Roth Capital Partners. Please proceed with your question.

Rick Hoss: Hi, good morning.

Jeff Glajch: Morning, Rick.

Jim Lines: Morning.

Rick Hoss: As far as gross margin goes, and when we're thinking about 2012, do you expect to see a 200-basis point split between first quarter and fourth quarter, or 100; or how do you think that progresses throughout the year as all the low-margin business works its way through and you start to see improved bid works set to show up in the P&L?

Jim Lines: One of the factors that I mentioned in the earlier remarks was how well loaded our first half of the year is. Part of our gross margin impact going into recovery is how much of our capacity we are utilizing and absorption of those expenses. We have a great first half teed up. The second half, we need the bookings in the first and second quarter to fill in our capacity for the second half. If I look at it as a general comment and we're going to win the orders to fill in the second half of the year, get up to 100% utilization and the same level of subcontracting we have in the first half, I would expect margins to be comparable.

Rick Hoss: Okay, so flattest throughout the four quarters then.

Jim Lines: Right.

Rick Hoss: Okay. Then how much of that short-cycle business has continued into the first quarter?

Jim Lines: We had a very strong level in the fourth quarter, we thought, due to decisions by the customers to hold back on procurement. It does not seem to have carried with the same vigor into our first quarter.

Rick Hoss: Okay. Jim, you talked about how you were disappointed in the last cycle that you weren't capturing everything, and you felt that maybe you could have grown faster organically if you had the resources and sales reps and engineers, et cetera. The last cycle, it looks like you achieved about a 20% to 25% organic growth rate. Do you think that we're set up to achieve something similar in this next cycle, or even above that as you're preparing to capture different business?

Jim Lines: There's a potential for it to be at that level or a bit higher. What I didn't like last time is at the start of the recovery, we had muted growth because we couldn't execute, and the market was turning more favorable and we were unable to win the business because we knew we couldn't execute it, so we had slow growth at the start. I don't like turning business away, I don't like giving it to the competition, and this time, we've made strategic decisions to bring personnel in ahead of the demand, so we're ready to grow as our markets do hit full stride in a recovery.

Rick Hoss: Okay.

Jim Lines: We weren't at that point last time.

Rick Hoss: Okay, and that explains the $1.5 million additional SG&A that you're adding if you annualize the fourth quarter. You're at a $15.6 million SG&A run rate, and so you're guiding to a $17 million midpoint; that $1.5 million would be purely setting yourself up in order to capture additional growth that you foresee as this next up-cycle materializes?

Jim Lines: Yes, that's right. With respect to, as an example, the Navy project, that's a long-term investment and we need to have the personnel in our company way in advance of actually recognizing revenue on the business we plan to win—say submarine work. But we're bringing those resources in now because there's some early activity that we'll be involved in. Not commensurate with the expenses that we're bringing in, but it's to support growth a couple of years out.

Rick Hoss: Okay. It's probably relevant to discuss the last peak gross margin as maybe unrealistic. 40% plus would probably be in the range, right? And thinking about setting expectations for this cycle, you peak out at upper 30s, does that seem reasonable?

Jim Lines: That's been our comment in that regard. We felt the next peak for modeling purposes mid to upper 30s. Is it inconceivable that we'd push beyond that and get into the 40s? I don't think so. It depends really on market conditions and if it gets as white hot as the last cycle. But we're not modeling our business around that happening again.

Rick Hoss: But your share of domestic versus international business also contributed to the higher margin as well, right, and thinking about the next cycle, it's probably led by international markets?

Jim Lines: But when you think about the refining of petrochem space, now with Energy Steel, that's largely North America. They provide a similar margin potential to our North American refining work. We also are expecting oil sands to be a nice component in our growth two to three years out. That has a similar margin potential to typical North American work like we had enjoyed in 2007, 2008, and 2009. So I see our sales mix, as we said earlier, being around 50/50 now, domestic/international, with the addition of Energy Steel, and Energy Steel brings in nice margin work.

Rick Hoss: Okay. Thanks, guys.

Jim Lines: You're welcome.

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

Joe Mondillo: Good morning, guys.

Jim Lines: Hi, Joe.

Joe Mondillo: First question, just going back to the gross margin. I was wondering if you could comment on what Energy Steel's gross margin looks like and how that's affecting the guidance that you put out there for the gross margin?

Jeff Glajch: Joe, this is Jeff. The margins at Energy Steel are comparable to Graham's.

Joe Mondillo: Okay, so it's primarily just the improvement on the volume and pricing?

Jeff Glajch: Right.

Joe Mondillo: Okay. What does the pricing look like in the orders that you're bringing in today? Are you seeing, on a quarter-to-quarter basis, a nice improvement there, or where are we in terms of the cycle with regards to pricing?

Jim Lines: Joe, we're in the very early stages of the recovery and it can be spotty. There's going to be some very nice wins and there's going to be some rough wins. When I say rough wins, we'll defend our market position; we'll make a strategic decision to win a particular order to keep a competitor out of our space. But in the early stage of a recovery, it's tough to comment on margins because it can be quite varied. In general, we feel more positive about it than we felt 12 months ago.

Joe Mondillo: Okay. Looking at the Energy Steel business, how much of that backlog is related to construction?

Jim Lines: The latest new construction, as an umbrella comment, none.

Joe Mondillo: Okay. So, your outlook is based on existing plants and should still look pretty positive going forward. Does the $18 million to $20 million of sales generated over the last 12 months or so see any new construction benefits?

Jim Lines: No, not in their sales.

Joe Mondillo: Okay. Then, in terms of the SG&A guidance, how much of that guidance is related to Energy Steel?

Jeff Glajch: If you look at the increase year-over-year, the majority of it is Energy Steel. Because we only had Energy Steel for just over one quarter of the year, the majority of the increase is probably about two thirds/one third for Energy Steel versus additional resources.

Joe Mondillo: Okay. I know I'm all over the place, but the U.S. Navy shipments, how do you expect those to hit the P&L throughout the 2012, 2013 period? Is it going to be more weighted in 2012 or the end of 2012, beginning of 2013? How does that look?

Jim Lines: Sure. The contract that we have, the order that was won back in December of '09 of more than $25 million has a revenue recognition cycle of roughly three years. We had a piece of it in fiscal 2011. The majority lands in 2012 and 2013, fairly equally across both those years, and a similar piece in fiscal 2014 to the fourth quarter piece we saw this past year.

Joe Mondillo: Okay. You mentioned that business will be strong through 2014 and 2015. The way I took that was you're expecting to possibly continue business with them and continue to see more orders in the future. Is that correct?

Jim Lines: That's correct.

Joe Mondillo: Are we looking at more orders like the one that you saw last year and could you comment with a little more color on that?

Jim Lines: The Navy work, the order we won and the one I just made remarks about, that's for an aircraft carrier. There's additional work to win for that particular aircraft carrier. We hope to be bidding that work over the next six months, hopefully win the order between six and nine months with revenue out in 2013 and 2014. The longer-term remarks that I was making refer really to submarine work, adding to our capabilities of providing our equipment not just to the carrier fleet but also to additional vessels. Right now, we're winning initial concept engineering work from the shipyards for the next generation of submarines, the Ohio class submarine. Ultimately, we hope, that would lead to procurement of equipment. But that, we believe, is out in the fiscal years that I said earlier, 2014 and 2015. Before that, that's where the sizeable orders would be.

Joe Mondillo: Okay.

Jim Lines: Mixture of vessels, mixture of timing: Longer-term, projecting out five years, we expect to have a more steady flow of naval work for submarines and carriers that is more uniform. Right now, the early stages of the strategy is going to have periods of time between winning significant orders. We're laying some very important ground work on getting our business in position to win additional work. I'm very encouraged by what I see, and by the interaction our team is having with the shipyards and with the Navy.

Joe Mondillo: Okay. And then the last question I have is could you comment on the competitive landscape, and the competitive pricing within the three or four markets that you serve?

Jim Lines: Sure. As I mentioned earlier, for the large projects at this early stage of recovery and refining in petrochem, there's going to be some very good work that we'll win and we have won. For example, in the last quarter, the order flow was rather spotty versus 2007 and 2008 when there was a heck of a lot of order activity. The margins can be rougher, certainly in the international markets, for refining or petrochem because the frequency of orders is spotty. The power generation market, renewable energy, tends to have a lower-margin potential than refining of petrochem. They're easier with less transaction costs and easier orders to process through our business. So there's a little different margin, different type of execution model with that work. And for Energy Steel, we haven't seen a great deal of variability in their margins; it's fairly consistent.

Joe Mondillo: Okay. So the chemical business is the reason why that's been light even up until this quarter, or the sales to the chemical markets. Is that just due to low activity or not being able to win orders due to…

Jim Lines: My view is it's the low level of activity. The population of opportunities is still relatively small at a given point in time, so all of us can be aggressively going after those, and that tends to have an effect on margin.

Joe Mondillo: Okay, all right. Thank you very much.

Jim Lines: Thanks, Joe.

Operator: Our next question comes from Dick Ryan with Dougherty & Company. Please proceed with your question.

Dick Ryan: Hi, good morning.

Jeff Glajch: Morning, Dick.

Jim Lines: Good morning, Dick.

Dick Ryan: Say, Jim, the initial work you're involved with on the submarine side, is that being won on a bid basis or—I didn't know if you were done with the certification process yet, either?

Jim Lines: It is bid. We have competition but this early type of engineering work for the next generation of sub that we're working on, it's not uncommon that multiple companies – Graham plus others – will bid on the concept designs for our types of products. That's how the early work goes. As you move to the more progressive and detailed engineering work, the suppliers get narrowed and then in the end, one builds the prototype, the first production unit.

Dick Ryan: Okay. And on the certification, is that complete yet?

Jim Lines: With regard to having security clearance and going through the process, we're at a point now where we can actually expand our avenues into the Navy for the work that we can bid on. So we have some clearances that allow us to gain access to information we didn't have before.

Dick Ryan: Okay, good. You've got a very good batting average with the refinery business over in China. Are you seeing any opportunities to get a toehold or, perhaps better than that, with the chemical side of the business in China and India?

Jim Lines: With regard to China, I'll go there first. We have hired a sales manager in our Suzhou office. He's focused on expanding our opportunities in the petrochem area. Some very strong opportunities we're seeing are coal to chemicals, or the petrochemical arena. We're positioning our company like we did in the refining space to become a preferred supplier to that industry. So, the missionary work is being done now but we are seeing a lot of activity coming up for that particular segment of the petrochem market.

We're also expanding toward the fertilizer market as well, which we've always had a strong brand there. But we didn't pay enough attention, I think, in China to maximizing our opportunities. So, we're moving outside of refining, still sticking focus on refining, but adding coal to chemicals and petrochemicals along with fertilizer into our areas of focus.

Dick Ryan: Okay.

Jim Lines: And those are very strong growth areas in China.

Dick Ryan: Yes. When you look at Energy Steel, when you made the acquisition, you talked about some international opportunities with your global footprint. Is it too early to start expecting you to be taking those services internationally?

Jim Lines: As a general remark, yes. We have a lot of upside potential here in North America with the existing plants and with the couple that are planned to go through to construction. We want to execute extraordinarily well on those opportunities and just capitalize on those. I would say tertiary would be the international side at this point in time.

Dick Ryan: Okay. If it's too early for the Japanese situation to start impacting business yet, what's the commentary from the existing customers? What are you hearing there?

Jim Lines: The commentary with respect to the North American utilities and what might occur is the new regulations that may come about as a result of what occurred in Japan will tend to take about 12, 18, maybe as long as 24 months to get pushed into the utility and then out to the supply chain. That was the timeframe after 9/11 before demand, or opportunities presented themselves because of what happened, so we're expecting over the next one to two years to see some pick up in North American utility opportunities related to the Japan incident. The Japan incident, as it relates to new construction though, I think that's more right in front of us with regard to some plants that slowed down; some plants have moved to the side in terms of their planning process. Four that we are aware of, and we believe that are going ahead, are the Vogel site and the Sumner site that have two reactors at each site in North America. Those appear to be proceeding.

But several others have indicated to us to expect a two-year delay, an order of that magnitude as a result of what's occurred in Japan. We've also picked up internationally that there's going to be some delay as well in new construction as they review the design specifications for these plants to ensure the safety and the controls are in place to prevent what happened in Japan from happening again.

Dick Ryan: If you look at that market after 9/11, is there a way to put your finger on what the incremental spend that occurred after 9/11 to draw a parallel to what's happened now? I mean, are there any figures out there to say, "normally it's X but with the 9/11 impact, it was X plus Y?"

Jim Lines: There may very well be; I don't have those figures.

Dick Ryan: Okay, good. Thanks.

Jim Lines: You're welcome.

Operator: Our next question comes from Tim San Lucas with Rosetta Capital Markets. Please proceed with your question.

Tim San Lucas: Hi, thank you. It's actually Gabe for Tim. Can you hear me?

Jim Lines: Yes. Good morning.

Gabe: Thank you. We just had a few questions for you. Could you please remind us of the percent of your backlog that you expect to recognize over the next 12 months?

Jim Lines: We expect 80% to 85% to convert over the next 12 months.

Gabe: Excellent. And can you also remind us on the increase in cap ex or actually just comment on the entire piece that you're raising for this next year? Can you break it down in buckets for us? How much is going to Energy Steel; how much is considered maintenance cap ex; and how much is considered growth cap ex?

Jim Lines: The majority of the cap ex is for the Batavia operation at this point in time, and the majority of that is for productivity and capacity expansion. There'll be a component for maintenance, of course, but our investments have been targeted in expanding our capacity and gaining productivity through new equipment investments.

Gabe: Okay. So, should we think about this as sort of a surge the next 12 months and then back down to your long-term trend after that?

Jim Lines: I think that's a fair way to consider it right now. We felt our capital plan, as a more normalized spend, would be in the range of $1.5 million to $2 million with the addition of Energy Steel. Before, it was $1 million to $1.5 million. We have points in time, say for the Navy project as an example, where we need to invest more to fully capitalize on those opportunities; but thinking of it as a more normalized level, I think in terms of $1.5 million to $2 million. But there could be surges or spikes where we invest more.

Gabe: And then, could you comment if there are some opportunities on your tax rate going forward with as much business as you have coming from overseas?

Jeff Glajch: Sure, Gabe, at this point, we would not expect a significant change there, but that's obviously something that we will continue to pay attention to. I would not expect that that will change dramatically in the near term.

Gabe: Excellent. And our final question; can you just remind us of the dividend strategy for the company?

Jeff Glajch: Graham—yes, we pay an annual dividend of $0.08 a share, and the reality is if we look at our cash position, we believe the best use of our cash is for future growth via acquisition, as we did with Energy Steel. We do pay a small dividend as noted. We also have a stock buy-back program in place right now through the end of July that's been in place for about two-plus years. But if I had to characterize our cash usage expectation, acquisitions would be probably first, second, and third on the list, and the others would be quite a bit behind it.

Gabe: Okay, great job. We appreciate it.

Jeff Glajch: Thanks, Gabe.

Jim Lines: Thank you.

Operator: Our next question is from George Walsh with Gilford Securities. Please proceed with your question.

George Walsh: Jim, could you expand again on the idea that you want to be ahead of demand versus the previous cycle in '06/'07? Just from pulling together the comments, is it a matter of increasing your staffing versus how you were previously, and plus these capital expenditures that you're doing in terms of production capacity?

Jim Lines: Exactly. It's increasing our personnel to be able to execute a higher level of orders and we didn't grow very well initially at the start of the recovery in 2005 to 2006, 2006 to 2007, and we again hit full stride in '08 and '09. That was disappointing. We don't want to do that again. It's more of an infrastructure built around personnel and focusing on productivity and IT solutions to allow us to execute at a higher level.

George Walsh: Okay. And is that engineering hires or in other areas?

Jim Lines: It's engineering; it's drafting; there'll be some quality; there'll be hires in manufacturing and in production.

George Walsh: They're pretty much across the board except administrative?

Jim Lines: That's fair, yes.

George Walsh: Okay. As far as the oil sands is concerned, does the pace of activity pick up as the price of oil moves up? Is there a correlation there for you?

Jim Lines: I would say there is, certainly. As oil prices dropped, they began to pull back very significantly on investments and that was around 2007 or 2008. We had heard that they were going to go into about a three-year pause, and that's pretty much what they've done. We're seeing the early signs of new upgrading investments. We're aware of two that are planned to go ahead right now and these are very large opportunities for us. We don't expect to win that business until the latter part of 2012, so it's revenue in 2013.

Where investment is going on now in the oil sands is on the extraction side, developing the fields to extract the oil sands. That ultimately goes to an upgrader. We hadn't really been on the extraction side historically, and we did recently win a very nice order on the extraction side, couple of million dollars, so we are developing strategies to try to be a more consistent provider of products on the extraction side of the oil sands business.

George Walsh: Okay. Is there a price of oil where it seems to be that there's a level where it's more economical, or is has that become something of a moving target?

Jim Lines: I think it becomes somewhat of a moving target tied to the cost of materials; when I say materials, carbon steel, nickel-based alloys, and copper-based alloys. As a general comment, what we're hearing from the oil sands developers is a price point in the $75 to $85 a barrel range with today's cost basis is about right.

George Walsh: Okay. Also, on the M&A front, could you describe what's in the pipeline, what's there and what are you looking at in terms of deals? Also in terms of doing the deals, are they looking more like all cash or maybe cash and getting stock in there too?

Jeff Glajch: Sure, George, this is Jeff. You know, we've continued looking into the pipeline, even subsequent to acquiring Energy Steel, so to be honest, we've been a little more focused on the integration and a little less focused on the acquisition process in the short term. But there are certainly opportunities out there, and as we saw with Energy Steel, there's a pretty significant timeframe from when you identify the right opportunity until when you ultimately close the deal. We're expecting when we find the right opportunity that they'll be that same type of a timeframe.

With regard to funding it, our preference would be to fund it with cash. Certainly there would be a scenario if a seller had an interest in some stock, we might be willing to utilize some stock, but our intent really is to use cash because we do not want to dilute our existing shareholder base.

George Walsh: Okay. In a general way, can you speak to industrial or market areas you're thinking about in terms of acquisition? And geographic…

Jeff Glajch: Sure, I think our strategy is where it's been for the last couple of years looking at it in that, geographically, we'd certainly considered domestic and North American opportunities. But we're also looking to be closer to our customers, whether that's in Asia or the Middle East or in South America, so we're interested in looking in both arenas.

And then industrially, we've got a couple of different alternatives there. One is to look at our existing business base and expand that and get a bigger share of our existing customer base; and then, additionally, we're looking at opportunities to expand our market presence, such as in Energy Steel, where we moved into a market where we weren't playing before.

So it's a pretty open strategy. We want to make sure we find the right opportunity. There are good opportunities, we believe, in each of those areas. At the end of the day, it comes down to having a willing buyer, which of course we are, and a willing seller. So we're not necessarily tied to one specific strategy, but rather there're opportunities across multiple arenas.

George Walsh: Okay, and size?

Jeff Glajch: We've consistently said between $20 million and $60 million worth of revenue would be our target. Energy Steel is near the lower end of that. That being said, we will look outside that range. We have and will continue to look above or below that range. Again, it's really a function of the right opportunity. I think we're very happy that we ended up going at the lower end with the first acquisition of Energy Steel to get ourselves, quite frankly, to build some credibility that we would be able to execute well on an acquisition. We believe we've certainly done that. We're certainly a little more willing to step to a higher level going forward, but that's no guarantee. It's, really a function of what the right opportunity is. It could be $20 million, it could be $60 million, or it could be even outside that range.

George Walsh: Okay. All right, thank you very much, gentlemen.

Jeff Glajch: Thanks, George.

Jim Lines: Thanks, George.

Operator: Our next question is from John Sturges with Oppenheimer. Please proceed with your question.

John Sturges: Well congratulations, gentlemen; nice job.

Jim Lines: Thanks, John.

John Sturges: I'm just curious—all the other questions have been pretty well answered. You've had a great series of questions asked. On Batavia, is the capacity expectation there to be about $125 million? I think you mentioned that, at one point, without having to push out or up or whatever?

Jim Lines: Without having to expand our rooflines…

John Sturges: Right.

Jim Lines: I feel it's in that $120 million to $140 million range.

John Sturges: Okay. And when do you think you might be at that level of capacity because the changes you're making are proceeding? I'm curious when you think you might have that capability?

Jim Lines: I'm going to answer this a little differently. When we were exiting fiscal 2009, when we did $101 million, we were teed up to execute at $120 million to $125 million.

John Sturges: Okay.

Jim Lines: Then the markets turned down on us, so as our markets recover, we know we can execute at that level.

John Sturges: Right.

Jim Lines: Business can execute under the roofline, and actually, we're further ahead today with our investments in productivity and lead-time reduction and just gaining capacity through the roofline.

John Sturges: Right.

Jim Lines: It really depends, John, on the recovery and the pace of how the markets come back.

John Sturges: Right.

Jim Lines: So I just wanted to strike the comparison to where we were at the last peak. We weren't done. The facility wasn't exhausted. We had more gas in the tank to expand our capacity and we were ready, but the markets turned down. So I would think that that's a couple of years out, tied more to market.

John Sturges: Right, of course. How about Energy Steel? You picked up $8 million in revenue. It's probably what, running around, $20 million at the moment?

Jim Lines: Energy Steel's capacity, I think they have a lot of runway through their facility. They thought well about their investment. The facility is only four years old. I think the management team thought long term about the investment, and they put a facility in place that I feel is running below half capacity.

John Sturges: Okay, so lots of room there basically?

Jim Lines: I believe so, yes.

John Sturges: And, of course, the last item is stuff sitting on the side that hasn't been billed yet. I assume that's what you call your increase in non-billed revenue?

Jim Lines: John, that's actually things that we're in the process of building, and it's just a matter of if they haven't shipped or if they're at a certain stage in the process, we haven't billed because of the customer. So those are projects that are in process and that the percent completion is ahead of the billing in this particular case.

John Sturges: Okay, in that case.

Jim Lines: And I think, if you look back a couple of years, you'll see the exact same kind of spike two years ago, where we went from $4 million or $5 million up to $10 million and then dropped right back down.

John Sturges: Right. I'm just curious if there's anything on the siding outside that just by somebody getting the right shipper, they could have been in the quarter that wasn't in the quarter? I'm curious as to what the variation would be in the quarter had that occurred?

Jim Lines: No, nothing of significance, John.

John Sturges: No, okay. I'm all set. Thank you.

Jim Lines: Thank you.

Operator: Mr. Lines, there are no further question at this time. I would now like to turn the floor back to you for closing comments.

Jim Lines: Thank you, Christine. And thank you, everyone, this morning for your time and for your questions. I hope we explained well Graham's performance through fiscal 2011 and how we're positioned to perform in fiscal 2012 and beyond. I'm very pleased with the way our company performed through the downturn and as we exited the downturn in the second half of fiscal 2011. And more importantly, I'm really pleased with the actions that we took as a company: the addition of Energy Steel, our focus on the Navy projects, our ability to build capacity inside our business, and to expand more quickly as our markets recover. Bearing in mind, we're bringing those investments in ahead of demand, but I believe they are the right things for us to do such that in 2013, '14 and '15, we're expanding more quickly than we did in 2005, '06 and '07.

Thank you for your time. We look forward to updating you again in July. Good-bye.

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