Operator: Greetings and welcome to the Graham Corporation First Quarter Fiscal Year 2015 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. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Karen Howard, Investor Relations for Graham Corporation. Thank you. You may begin.

Karen L. Howard: Thank you, Brenda, and good afternoon, everyone. We appreciate your participation in our first quarter fiscal 2015 financial results conference call. You should have a copy of the news detailing Graham's results that was released this morning. We also have slides associated with the commentary that we're providing here today. If you do not have the release or the slides, you can find them at the Company's website at www.graham-mfg.com.

On the call with me today, we have Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff will review the results for the quarter, as well as our outlook. Then we will open up the lines for Q&A.

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 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 and in the slide deck, as well as with other documents filed by the Company with the Securities and Exchange Commission. You can find these documents on our website or at www.sec.gov.

And with that, I'm going to turn the call over to Jim to begin. Jim?

James R. Lines: Thank you, Karen, and good afternoon, everyone. I am on slide number three. Restating what our objectives are over this current cycle, we plan to double the size of our business from currently $100 million of revenue to exceeding $200 million of revenue at the peak of this cycle. We will stay focused on Engineered-to-Order products and in serving the energy markets. That's where our brand is most well recognized and where our differentiated value proposition is strongest.

First quarter highlights include $31.1 million of orders, up 32% from the trailing quarter. As of the end of the quarter, we have a record backlog of $114.8 million, up sequentially a few million dollars. First quarter revenue was $28.5 million with diluted earnings per share of $0.24. Our fiscal 2015 guidance remains unchanged. Revenue is expected to expand 17% to 27%, or fall between the range of $120 million to $130 million.

Sales in the quarter were driven principally by the strong North American petrochemical industry sales, which were just under $12 million, at $11.7 million. Refining industry sales were $6.6 million, sales to the power industry just short of $5 million, and sales to the other commercial and industrial markets including the defense market were $5.3 million. We had very strong North American sales in the quarter, totaling $22.2 million, representing just over three quarters of the sales in the quarter, up 48% from the prior period. Our defense sales were very strong in the quarter as well.

I'll turn it over to Jeff now for a more detailed financial review of the quarter. Jeff?

Jeffrey F. Glajch: Thank you, Jim, and good afternoon, everyone. I'm now on slide seven. Sales in the first quarter were $28.5 million, up slightly compared with $28.3 million in the first quarter last year. As Jim mentioned, sales were 78% domestic and 22% international, representing the strong domestic order level that occurred in the first half of last year. Last year's first quarter sales split was 53% domestic and 47%

international. Domestic sales increased $7.2 million to $22.2 million compared with $15 million last year, whereas international sales decreased to $6.3 million, down from $13.3 million last year. Gross profit decreased to $7.9 million from $10 million last year. This decrease was primarily driven by the mix of projects in this year's first quarter compared with a much more favorable mix in last year's first quarter. Gross margin was 27.8% compared with 35.4% in the same period last year.

EBITDA margins decreased to 15% from 22% in last year's first quarter, driven completely by the lower gross margin level. Actual SG&A spending was down slightly, and also down 30 basis points to 15.3% of sales in the first quarter. Net income decreased to $2.4 million from $3.8 million, or $0.24 per share down from $0.38 last year. The comparison to last year's first quarter was challenging since nearly 40% of our earnings last year occurred in the first quarter alone. The comps for the rest of the year will be much less difficult.

Looking at slide eight now, we generated $3.2 million in operating cash flow in the first quarter, up from $2 million last year. Our cash and investments position increased slightly to $61.4 million. We utilized most of our operating cash to fund the Batavia expansion. We have approximately $1 million to $1.5 million remaining to spend on the expansion, which will likely occur in the second quarter.

As many of you are aware, we take great pride in our cash flow metrics, where we've seen approximately 90% of our net income since the start of fiscal year 2006 add to our cash position or be utilized for acquisition capital.

Finally, we continue to have a strong, 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 internal growth, as well as future acquisition opportunities going forward.

With that, Jim will complete our presentation by discussing our strong order and backlog level and the reiteration of our full year guidance.

James R. Lines: Thanks, Jeff. We are on slide 10. Order levels in the quarter, as I mentioned earlier, were strong at $32 million. On a trailing 12-month basis, that's a $126 million order level, which is similar for the last three quarters or four quarters. We do believe our markets are continuing to improve, principally the North American markets and we've seen a very strong order growth compared to last year.

Orders have been diverse across our end-use markets of refining, petrochem, power generation, as well as the defense program. This last quarter, orders were 53% domestic, 47% international. I would like to acknowledge that our bid pipeline remains as strong as it had been, which continues to be a very powerful leading indicator for the direction of our business.

Our backlog, as we said earlier, is at a record level. It's diverse. It shows the strength of our diversification strategy. Twenty-three percent of our backlog is for the Navy or defense program, 27% is for the chem/petrochem markets, roughly one-third of it is for refining, and the remainder of our backlog is for power and our other markets.

Our backlog, as we've talked over the last several conference calls, has changed to be more protracted or elongated, where in our past it would be more normal to convert 90% to 95% of our backlog over a 12-month period. With our defense work and some of our nuclear work, those orders have extended conversation cycles. Now, we are looking at a backlog that converts 70% to 75% over a 12-month period, another 15% to 20% between 12 months and 24 months and the remainder of the backlog beyond two years for conversion.

Also importantly and again pointing out the value of the diversification strategy, about one-third of our current record backlog is from markets and/or customers the Company did not serve last cycle.

I would like to confirm our guidance. Revenue expectations remain between $120 million and $130 million, gross margin for the full year is expected to be at 30% to 32%, SG&A as a percent of sales will be 15% to 16%, and our effective tax rate should fall between 33% to 34%. This indicates our top line growth will be between 17% and 27%, and our bottom line will grow more quickly than our top line growth.

With that, Brenda, I would ask you to open the line for questions. Thank you.

Operator: [Operator Instructions] Our first question comes from the line of Chase Jacobson with William Blair. Please go ahead with your question.

Chase Jacobson: Hi, good afternoon.

Jim Lines: Good afternoon, Chase.

Jeff Glajch: Hi, Chase.

Chase Jacobson: Jeff, my first question seems to be what everybody is trying to figure out right now, given the strength in chemical over the last year. It seems like some of the customers are now trying to stretch out their investments further and we've heard of some pressure on the supply chain. I'm curious as to what you're seeing, given how early you are in the project lifecycle?

Jim Lines: Chase, this is Jim. I'll take the question. As we look at the North American petrochem market and the amount of projects that have been released thus far, there are six ethylene plants that have gone ahead where orders have been placed, four or five fertilizer projects, and two methanol plants. We have benefitted from these projects, we have these orders in our backlog. That's a huge amount of work, an unprecedented amount of work with the North American market certainly in the last decade, that's beginning to go into the supply chain and show some tightness and more importantly to the project sponsors, beginning to show up as some cost creep as the supply chain tightens up.

I do think as we move forward, that's putting pressure on the project sponsors to either move more quickly, or to be more hesitant to allow the supply chain to get some more slack in it, which will take a bit of time. I do think that is occurring and we are seeing that as what we've often talked about unfortunately over the last several quarters is, a movement to the right, a calendar right, for some of this project activity.

What we have in backlog, however, we're not really identifying any pressure from our customers to slow down. That work is more urgent to be first to market. It is for the new orders, the new projects that haven't made commitments yet for critical equipment or secondary items that we are seeing get pushed to the right. As it relates to the supply chain in our costs or our COGS, if you will, we haven't really seen it impact our COGS based on how we manage these orders and our procurement practices after we have an order. We haven't seen margin erosion or cost creep due to supply chain step-up in cost. For new bids, of course, we have, but we've been addressing that by pushing that step-up in cost into the market with higher prices.

Chase Jacobson: Okay. Following-up on that then, you had good awards this quarter, but given where your backlog is and what you expect over the next 12 months, it looks like you still need to have some pretty solid awards in the next quarter or two. How confident are you still in your revenue guidance number?

Jim Lines: I'm confident. I wouldn't have confirmed the guidance if I didn't have a high level of confidence. What I would say we're lacking in an appreciable degree, which is not something that I'm overly concerned about at this point in time, is the short cycle sales bookings still need to be booked to fill out the remainder of the year. In terms of our large project work and the amount of releases from engineering into production, the remainder of this year largely is about execution, Chase, not about winning new business.

Chase Jacobson: Okay. That's really helpful. One last question, Jeff, related to the CapEx. Are we just about at the end of this CapEx program? Should we expect that CapEx will be similar in the second quarter and then kind of drop off in the second half of the year?

Jeff Glajch: Exactly. Part of the production facility is already online, the rest of it will be online very, very soon. Cash sometimes is a little slower than the actual building activity. We will have CapEx in the second quarter fairly similar to the first quarter, and then in the third quarter and fourth quarter it will drop off to a very low level.

Chase Jacobson: Okay. Thank you.

Jeff Glajch: Thanks, Chase.

Operator: Our next question comes from the line of Jason Ursaner with CJS Securities. Please proceed with your question.

Jason Ursaner: Good afternoon.

Jim Lines: Hi, Jason.

Jason Ursaner: Going back to some of the big petrochemical orders you booked last year, the market got real hot, you had some pretty significant order activity in the first half of your fiscal 2013. That necessitated the outsourcing and I think there has been commentary that the delivery times were kind of bunching up for fourth quarter of last year and this current quarter. I'm looking at the revenue, did some of those shipments get pushed out at all? Are some of those still in backlog where you'd get revenue that's kind of additive towards your order base revenue?

Jim Lines: The orders that we won roughly 12 months ago and through our second quarter corresponded to an $80 million bookings rate for the first half of last fiscal year. Much of that's now into conversion from our backlog into revenue. As we acknowledged when those orders were won, because they came all at one time, we didn't think they would be executed in a timeline that the contracts suggested.

Our customers would not be able to keep up with how quickly we could be ready and that was the case. That was maybe a one quarter or two quarter push to the right. Right now, those projects are out into production generally, and they're going through the revenue conversion now. What was just booked, the larger work, of course, Jason, doesn't begin to hit revenue for awhile. At the earliest, it's two quarters before it begins to get into production, and with a revenue recognition policy, starts to affect the revenue and profitability about three quarters out. Therefore, the $32 million that was just secured this last quarter begins to show up in our Q3, perhaps most likely our Q4.

Jason Ursaner: Right. Understood. Following up on Chase's question, because I'm looking at the mid-point of the revenue guidance and sales, the average for Q2 through Q4 is still above the recent order rate. When you talk about revenue guidance confidence then, you have record backlog and you're going to have some excess deliveries relative to what people are seeing come through on the order side for a couple of quarters versus just overall confidence that you are going to start to see an improvement in order activity materialize?

Jim Lines: Jason, that's our expectation based on how we assess the pipeline and the quality of the bids and the stage of the bids that we have. We are expecting backlog to grow by year-end compared to where it was at the end of fiscal 2014, suggesting then, taking the mid-point of this revenue guidance, that bookings would be stronger than $125 million for the full year. That's based on our judgment of all the project activity that we have, which is pretty diverse. And some additional short cycle work as well that we hope to move during this timeframe.

Jason Ursaner: Okay. The shift in mix to more based in North America, do you see that being helpful for margin when you look out three, four quarters as those orders begin to flow through?

Jim Lines: I do. If we look at a measure we've analyzed, which is the margin of backlog relieved versus the margin of what was going into backlog over the last couple of quarters, we'd see a richer margin going into backlog than what was relieved. Therefore, a few quarters out or if you think about what our guidance implies, there will be stronger margin as we move through the year and as this work becomes richer in margin profile than what we are currently executing.

I just want to clarify or restate what we stated two or three conference calls ago. When we had the strong order intake a year ago, some of the orders we won, we took a defensive position to secure our market share and keep some low-cost suppliers out of our key markets. Some of those decisions are running through revenue now. I don't look back on those decisions as being imprudent, but we have to deal with those order selections, or defensive strategies, as those orders convert and we are going through that conversion now. What I'm seeing coming into the backlog, what I'm seeing with our customer base is a settling to some more normalcy and they are less concerned about the low-cost international supplier as a competitor on our home court.

Jason Ursaner: Okay. When you look at the longer term cycle goal of $200 million, how much do you need some of that international project work to kick in versus what you could really achieve with some of the growth in the domestic market, and how does that balance with margin goals going forward?

Jim Lines: Certainly, international projects play a role as we think about the $200 million. I want to segment this into the three silos we think about it, which is the traditional Graham, the defense segment, and then the power segment.

In our defense segment, we believe across the cycle and as part of the $200 million analysis, that segment grows to 15% to 20% of the $200 million from where it is today. We have to actualize and realize our strategy. I am confident in us doing that from what I have been able to ascertain and the report hours that I get from those driving the strategy.

On the power segment, which is really nuclear power, we need to have a stronger focus there to access more opportunity than we currently are. I don't think we are market limited there. We are addressing the customer-facing side of Energy Steel to broaden the funnel of what we are seeing and then what we would access and close.

On the traditional side of the business, which we think needs to grow $35-ish million, that's both that's both domestic and international. Fortunately, we have a strong domestic market that is pretty vibrant right now and we see some signs that it's going to stay that way as we move through the cycle.

We're now finding refining picking up globally, with work in the Middle East, in Asia, and in South America that should materialize to help round out the order mix that we've had the last year or so. Everything is playing out as we would envision it should have. The end market mix and the geographic mix appears to us as though they will play out according to plan without much variation from how we thought it would be modeled.

Jason Ursaner: Okay, great. That level of detail is actually very helpful. One last question if I can, you have obviously done a great job on the cash generation and the cash position. Relative to the previous commentary that it might take a small step back in the first quarter, was this just better cash earnings or with the commitments you have, would you still expect some outflow in the very short term?

Jeff Glajch: Jason, in the next three quarters, we expect net cash generation possibly every quarter, but certainly across some of the three quarters. With regard to what happened in the first quarter, we had a little more favorable working capital than we had expected. The capital spending was right in line with where we had expected.

Jason Ursaner: Okay. Great. I appreciate all that. Thanks gentlemen.

Jim Lines: Thank you.

Jeff Glajch: Thank you.

Operator: Our next question comes from the line of Joe Mondillo with Sidoti & Company. Please go ahead with your question.

Joe Mondillo: Hi, guys. How are you doing?

Jim Lines: Hey, Joe.

Jeff Glajch: Hi, Joe.

Joe Mondillo: I just wanted to take the opposite approach in terms of the guidance. The 12-month backlog is actually up 27% year-over-year, which is at the high end of your revenue growth guidance. Having said that, is there a chance that we actually not only hit that guidance, but surpass it?

Jeff Glajch: Joe, that increase in backlog that you are referring to, if you recall, in the second quarter of last fiscal year, which would be in this timeframe, we had an increase which, at the time, was in our Navy and other category. There were some orders in the Navy arena that led to that increase. The Navy orders, of course, are much longer tenure from order to shipment. I think that about half of the increase probably was due to that. The expectation of going above the top end of the guidance, based on that comment, is probably not a direct correlation, again because of the Navy orders.

Joe Mondillo: Okay. You disclosed the 12-month backlog, which is 70% to 75% of the total backlog. I know the 12 month obviously carries through the first quarter of next year, but even with your point to the Navy orders, the backlog is up significantly.

Jim Lines: Sure. Joe, this is Jim. As we look at our guidance and as we look at our backlog and the conversion schedule of the backlog, the guidance we've given you is our high confidence level. To push beyond the upper end of the guidance of $130 million, it's really not what's in backlog now that will drive that. If we have a burst of short cycle sales that come in that we can convert more rapidly, that could push us beyond the upper end of the range. The conversion schedule of the big work in backlog, the major work in backlog, by itself is unlikely to push us above $130 million.

Joe Mondillo: Okay. Fair enough. I was trying to look at it on the optimistic side of things.

Jim Lines: Okay. Thank you.

Joe Mondillo: In terms of gross margin, I was wondering, the orders that you are bringing in today, are they pretty much consistent with what we've been seeing in the last several quarters or is there any change in gross margin in new orders?

Jim Lines: Qualitatively, I'd say it's been moving up. As I've said earlier, we did an analysis and determined that what has converted from backlog over the last several quarters compared to what's been booked into backlog during that same timeframe, the incoming bookings are richer in terms of margin. We feel the order environment and the rapidness with which we saw orders being placed a year ago has subsided. I think all that bodes directionally to more favorable margin.

Joe Mondillo: Okay. Good. Jim, looking at the big picture, aside from the petrochemical orders and the industry being pushed out to the right, is there anything that makes you more positive or even negative since the last time we spoke?

Jim Lines: Nothing on the more negative. I've always felt at these points in the time in the cycle, the longer the delay in releasing these projects, the stronger it would work out in the end. I don't see the fundamental market dynamics having changed to where we're going into an eminent slowdown. We found that these pushes to the right when projects do release that way, the work can be quite strong depending upon the duration of the delay. This delay now, you've heard us talk for a number of quarters about pushing to the right, and again, the underlying demand as we see it and have analyzed, hasn't really changed and that keeps us positive.

Joe Mondillo: Okay. Then, looking at your refining piece of the business, which has historically been your higher margin type work. The last several quarters have been fairly weak, but it looks like the orders in refining were pretty strong in the quarter. Is there anything that indicates an upturn or improving demand or anything regarding that?

Jim Lines: Indeed, we did have nice refining order intake. We have talked over several conference calls about a step-up in demand for what we call upgrades or the metallurgical upgrades to existing equipment. We had a very large order in this past quarter that was for an upgrade to equipment we have provided about 10 years ago. We don't necessarily view that as predictable or indicative of a step-up in refining demand in general because of the size of that project.

However, if you look at our bid pipeline and projects we're bidding now for China, for the Middle East, for South America, and even in the US, it gives us a sense that refining is beginning to pick up. If I think about the last cycle, the cycle 2004 through 2009, petrochem led the way and then refining turned on about two years into that cycle. Perhapswe will see that play out again. As you had acknowledged, refining has a higher margin potential in general, lower transactional cost for us to execute those orders, and our brand is stronger there.

Joe Mondillo: All right. Lastly, I was wondering if you could refresh my memory in terms of the capacity expansion. Is that just additional capacity or is there a margin story behind that as well?

Jim Lines: It's to serve the additional demand that we saw coming, and also to support our diversification strategy with the defense program.

Joe Mondillo: So, it isn't the case that instead of outsourcing the work, you're going to be able to do in-house?

Jim Lines: We've modeled our long-term profile as having 10% to 20% of our revenue is outsourced. Right now, our production hours might be nearer to 25% being outsourced, but that will subside because now we're dealing, with the surge of orders 12 months ago that had an annualized rate of $160 million. We just didn't have the horsepower to put that through our roof line. Under our ordinary course of business, I would expect our outsourcing strategy to be as I just acknowledged, where somewhere around10% to 20% of production hours are outsourced, as it has been in the last four to five years.

Joe Mondillo: Would it make sense for that to put a little upward pressure on gross margins, just given less outsourcing as a percent?

Jim Lines: All things being equal, your assertion is correct.

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

Jim Lines: You're welcome.

Jeff Glajch: Thanks, Joe.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Brian Rafn with Morgan Dempsey. Please proceed with your question.

Brian Rafn: Yes. Good afternoon, guys.

Jim Lines: Hi, Brian.

Brian Rafn: Jim, you talked a little bit about the quote activity strengthening. I'm wondering, what's the pricing dynamic? You talked a little bit about customers either deferring or accelerating, what is the price environment?

Jim Lines: Brian, I believe it's continuing to improve, not a step change, but directionally I believe it's becoming more favorable based on our analysis of the order intake this period versus prior periods, having stronger margin, and things being more stabilized in our market. The frenzy we saw 12 months ago in Q1, Q2, I think that had some dysfunction in it. Our ability to manage price and the competitive market has improved as things have stabilized. That helps us in our ability to manage margin and price and order selection.

Brian Rafn: Okay.

Jim Lines: I do think directionally it's becoming more favorable.

Brian Rafn: All right. Okay. You talked, Jim, a little bit about your short cycle bookings. What kind of segments would you be looking to source some of the short cycle business? Is it just about positioning and being there for that business? Are there situations where you have customers you've done work with in the past which gives you a more favorable position to pick up some of that short cycle business?

Jim Lines: Brian, about half of our short cycle business is what we call aftermarket or spare parts. That is an area that can come up on the radar screen very quickly. As we talked about, four quarters ago, which was the tough comp of first quarter 2014 to this quarter, we had a very high influx of aftermarket replacement units from the refining sector. That lifted our margins and our revenue comparatively to where it otherwise would have been at that point in time. That's sometimes hard to predict because it pops up in a quarter and it's closed in a quarter and it shifts shortly thereafter.

When I started with Graham, for about the first 20 years with Graham, refineries would run four years between scheduled turnarounds. Now they want to try to run the refineries between six years and eight years, and that's leading to a step-up in demand for metallurgical upgrades, replacement of the equipment that we've provided 10 years ago, 15 years ago. We've seen this phenomena the last couple of years, and they can be quite impactful in a quarter for orders or can be impactful in a quarter for sales and profit, because of the nature of those types of orders.

That's a short cycle-type opportunity. Another short cycle opportunity is in our heat transfer area, our small products area, where the average selling price is $10,000 to $50,000. We're focused on growing that segment of our business and we can have some very nice orders to the OEM market that serves the energy market, and those are on our radar screen and it depends on the timing and when our customers want them.

Then, of course, the Energy Steel business. There is about a third of that business in the short cycle type of sale where it comes in and out in three months to six months. That comes down to order timing and then customer need date.

All-in-all, I'm encouraged about the level of our short cycle opportunities. Those are hard to predict, I'm not being evasive. They can come up very quickly and have an impact on a quarter that's very appreciable. I just want to speak more qualitatively than quantitatively here.

Brian Rafn: I think you've answered that real well. Are spare parts a function of a proactive repair of something that's failing, or are you talking about fires and explosions and things that are more of a rupture?

Jim Lines: From the discussions that we've had with the refiners, it's more around on-stream performance, staying online longer, not subjecting the refiner to an unscheduled shutdown, and trying to extend the operating interval between scheduled shutdown, because money is made being on-stream. They want to be on-stream longer. What they're doing is, they're looking at the installed equipment, looking at its operating life for the next six years to eight years, and perhaps buying sooner than they otherwise would have replacements with the metallurgical upgrade to assure when they go into the startup, there is less likelihood of an unscheduled shut down, because of our equipment.

Brian Rafn: Okay. All right.

Jim Lines: Because of the erosive nature of the application that we're serving with our equipment.

Brian Rafn: Okay. No, it's good, it gives good color. Let me ask you more of a strategic question. Given the Israeli-Hamas rocket attacks, China moving into the South China Sea, and Russia invading the Ukraine, there is a lot of volatility. How does that impact the scheduling of orders and business development and can you divorce the warfare and politics from the general course of business?

Jim Lines: Great question. We have to watch how that unfolds. Obviously, there is a lack of tranquility in the global market and that could have an effect on project schedule. At this point, we haven't seen it. However, it's a very unclear picture for all of us. I am not at a point, nor am I knowledgeable enough to be definitive. All I can say is what's in my windshield right now, which is nothing alarming.

Brian Rafn: Okay. No, fair enough. I missed your opening comments, is there anything on Navy work? I think you guys will be looking at the John F. Kennedy CVN-79?

Jim Lines: That's what we're executing now.

Brian Rafn: Okay.

Jim Lines: We're gearing up to hopefully participate in the bidding process for CVN-80.

Brian Rafn: Yes. Okay. Regarding the CVN-80 Enterprise, I don't think they're cutting steel yet; so how far is the bidding process out on that? Is that something you'll see happen within the next six months to eight months, or is it a year or two years out from the standpoint of awards?

Jim Lines: Hi, Brain. Our judgment on that is, the order we won was December of 2009. The carrier schedules are to build them in five year centers. That would suggest the order is December of 2014.

Brian Rafn: Okay.

Jim Lines: Our perspective on that is that this is unlikely. I think it's somewhere between 6 months to 18 months.

Brian Rafn: Okay. No, I think that's fair. That's fair. We've got one of our analysts that has a question here, Ryan Hamilton.

Ryan Hamilton: Yes. I was wondering specifically about refining, is that a more of a long or a short cycle?

Jim Lines: In the context of what we spoke about the metallurgical upgrades?

Ryan Hamilton: Yes.

Jim Lines: We did throw a new term out last conference call, which was the middle cycle. It's sort of between our long cycle sales and our short cycle sales. Convergent can be four months to eight months typically, as opposed to in and out in three months.

Ryan Hamilton: I'm sorry?

Jim Lines: They're far easier to transact and there is less engineering activity that goes on with those, and the design is frozen relatively quickly because it's an in-kind replacement or a metallurgical upgrade with exact dimensions to what we provided initially.

Ryan Hamilton: What about for petrochemical?

Jim Lines: On the short cycle sales or--?

Ryan Hamilton: Yes, what is the term length?

Jim Lines: Sure. The petchem work that we won about 12 months ago, that will generally have a 12-month to 15-month conversion cycle, certainly if it all comes in a short burst, it will be more towards 15 months. If it comes through the ordinary course of the more steady flow of order placement, we think in terms of 12-month conversion cycle.

Ryan Hamilton: Okay, great.

Brian Rafn: One final question, Jim. Any more discussions with the Navy relative to some of the work that you guys were looking at in the Fast Attack Subs, probably the Virginia Class, or the new ballistic missile boats?

Jim Lines: We have. As we acknowledged on the prior conference calls, we're at a point now where the bidding activity is beginning for the Ohio Replacement Program, the ballistic missile subs. We plan to be doing some bidding activity there. We would envision, Brian, there would be orders placed with someone over the next six to nine months.

Brian Rafn: Okay. Thanks so much. Thanks, guys.

Ryan Hamilton: Thanks.

Jim Lines: You're welcome.

Operator: Our next question comes from the line of Gabe Birdsall with Brasada Capital. Please proceed with your question.

Gabe Birdsall: Hey, guys. How are you?

Jim Lines: Hey, Gabe.

Gabe Birdsall: Thank you for your time. I think I heard this clearly earlier, but I want to make sure. The hit to your full year numbers on the gross margin target that you've laid forth, Q1 was obviously the low point for margins, is that correct?

Jeff Glajch: We would expect gross margin to continue to improve as we move across Q2, to Q3 and Q4.

Gabe Birdsall: I've asked this last quarter and the quarter before, on the excess cash, are there any additional considerations for the use of the cash?

Jeff Glajch: We are steadfast to our capital deployment policy which is growth, growth, growth, and organic or acquisition growth, secondarily CapEx to support the growth. Third and fourth would be, considering the dividend changes. Lastly would be share repurchase.

Gabe Birdsall: How close are you on any growth opportunities?

Jeff Glajch: On the organic growth side, growing 20% which is what I guided.

Gabe Birdsall: No. I meant more on the M&A front. I know you have great growth in front of us on a stand-alone basis. I meant it just on deploying the cash for M&A activity?

Jeff Glajch: We are still in the active assessment mode of looking at targets. We have not identified one that fits our metrics. That's where we are. I personally don't like the valuations right now.

Jim Lines: Pricing has gotten to be a little high, Gabe.

Gabe Birdsall: Is that coming from private equity or is that coming from competitors?

Jim Lines: I think it's coming from general expectations in the markets that we're looking at, as things have gotten a little bit better, folks have gotten a little more aggressive in their price expectation.

Gabe Birdsall: Okay, guys. Thank you.

Jim Lines: You're welcome.

Jeff Glajch: You're welcome, Gabe.

Operator: [Operator Instructions] Okay, and it seems that we have no further questions at this time. I would like to turn the floor back to management for closing remarks.

James R. Lines: Thank you, Brenda, and thank you, everyone, for your attention, for your interest, and for the questions that we had a moment ago. We're very pleased with where our business is with our ability to execute the near-term strategy. As I said earlier, fiscal 2015 is now about execution, it's not about getting the orders, and I have a high confidence level in our ability to execute what's in our house, what's in our backlog. We'll update you as the year progresses on the next conference call in terms of order intake, backlog conversion, and our guidance. Thank you again. Have a good night.

Operator: Thank you, ladies and gentlemen, this does conclude our teleconference. You may disconnect your lines at this time. Thank you for your participation.