

Operator: Greetings and welcome to the Graham Corporation Fourth Quarter and Full 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 Karen Howard, Investor Relations for Graham Corporation. Thank you. Please go ahead.

Karen L. Howard: Thank you, Brenda, and good morning, everyone. We certainly appreciate your time today. You should have a copy of the news release that crossed the wire this morning detailing Graham's results. 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 are Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff will review the results of the quarter and the full year of fiscal 2015, as well as our outlook. We will then open up the line 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 on the call. 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. These documents can be found on our website or at www.sec.gov.

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

Jim Lines: Thank you, Karen, and good morning, everyone. We are pleased to report our fourth quarter and full-year results, as well as discuss our strategy.

I am on slide three. Our results in the fourth quarter and for the full year of fiscal 2015 demonstrated the value of our strategy to leverage all of our assets to drive top-line growth and expand earnings. We will continue to execute our current strategy to double revenue. Admittedly, we're in an operating environment now that is far different from one year ago, or how we projected fiscal 2016 growth at this time last year. Regardless of the immediate challenges, underlying fundamentals in our markets that create long-term demand for Graham products remain intact.

Our estimated timing for achieving our near-term objective of doubling revenue has certainly shifted, due to the dramatic contraction in our oil refining and chemical industry markets over the past two quarters. The strategy we are executing is straight forward. We will leverage our capabilities and capacity to capture greater share in our key markets of refining, petrochemicals, power and naval; expand less cyclical sales to strengthen earnings by reducing the impact of the cyclicity in our refining and petrochemical markets; and use our strong balance sheet and operating cash flow to both diversify and strengthen revenue opportunities.

Please turn to slide four. Our fourth quarter revenue was \$37.5 million, up 44% from the prior

year. The full-year revenue was \$135 million, a 32% increase from fiscal 2014. This level of solely organic revenue expansion is a result of the early investments made in workforce capabilities and capacity, capital investments to expand our production facilities and add modern machine tools and welding equipment, and most importantly, is derived from a talented, highly engaged team of employees that are committed to improving Graham and delivering exceptional quality and service to customers.

Net income for the quarter was \$4.2 million or \$0.41 per share. Excluding a nonrecurring restructuring charge, earnings in the quarter were \$5.3 million. Full year earnings were \$14.7 million or \$15.9 million excluding the restructuring charge. Orders for the full year were \$136.5 million for a book-to-bill of just above 1.0. We are exiting fiscal 2015 with a record year-end backlog.

I am now referring to slide 5. We continue to have strong domestic sales, which were 64% in both the fourth quarter and for the full year. This is due to strong investments in new United States chemical production capacity, along with our naval and nuclear strategies. In the fourth quarter, the refining industry comprised 32% of sales, chemical industry was 36% of sales, power was 9%, and other markets, which include U.S. Navy sales, were 23% of total sales.

Please move to slide six. Dampening the impact to earnings caused by the cyclical nature of our refining and chemical markets has been a priority. Through several key initiatives, our predictable, less cyclical sales have expanded from what had been \$18 million in fiscal 2005 to \$51 million in fiscal 2015. We are committed to expanding these segments further in order to strengthen sustained earnings and reduce volatility in our financial performance. Aftermarket, short-cycle new equipment sales, naval and nuclear MRO form what we refer to as our predictable, less cyclical, sales base. I've been pleased with our progress in developing the stronger base of business.

I wish to turn the call over to Jeff for a further review of the financial details. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. I'm now on slide eight. Q4 sales were \$37.5 million, up 44% from \$26.1 million in last year's fourth quarter. The sales split of 64% domestic and 36% international was different from last year's fourth quarter, which was 78% domestic and 22% international, but still strong domestic sales, because of the investment in the domestic petrochemical markets.

Gross margin was 34.1%, up from 28.4% in last year's fourth quarter. Adjusted EBITDA margin was 23% for Q4, up from 14% last year.

Q4 net income, as Jim mentioned, was \$4.2 million, or \$0.41 per share, but when adjusted for the one-time restructuring charge, was \$5.3 million, or \$0.53 per share, compared with \$2.3 million, or \$0.23 per share, last year.

On to slide nine, our full-year results were quite strong compared with last year. Sales were \$135.2 million, up 32% compared with \$102.2 million last year. Sales for the full year were 64% domestic and 36% international, fairly similar to last year, which was 62% domestic and 38% international. Gross profit was up \$10 million to \$41.8 million. The gross margin was relatively flat, down 20 basis points to 30.9%.

SG&A for the year was \$18.5 million, up 8% compared with \$17.2 million last year. SG&A as a percentage of sales dropped 310 basis points to 13.7%. The adjusted EBITDA margin was up 240 basis points to 18.9%, and adjusted net income per share was up 57% to \$1.57.

The strong results of fiscal 2015 are a testament to all Graham employees who, as a team, performed quite admirably.

On to slide 10, our cash position for the year was down slightly by approximately \$800,000 to \$60.3 million. The decrease is simply due to the timing of accounts receivable and unbilled revenue. We expect a very strong cash flow over the next one to two quarters and, excluding any impact of share repurchases, we would expect this cash position to be well above \$70 million by mid-year.

The doubling of our dividend in January and the availability of the share repurchase plan is further evidence of our confidence in long-term cash flow. Despite the use of cash for these activities in the future, this will not have any impact on our ability to continue to reinvest in our organic business as needed, as well as funding potential acquisition opportunities.

I'll pass it back to Jim for some commentary on fiscal 2016 and beyond.

Jim Lines: Thank you, Jeff. I now refer to slide 12. It is terrific to have a book-to-bill greater than 1.0, especially considering the abrupt contraction in our refining and chemical markets that took hold starting in our fiscal third quarter. A large percentage of the orders in the fourth quarter are for the U.S. Navy. That, of course, is terrific and is proof that we continue to execute well on our naval strategy to be a supplier to both surface and submarine nuclear propulsion programs.

There are restrictions regarding our ability to discuss specifics about naval orders. We have communicated that our strategy is to supply products to both of the submarine programs, as well as the carrier program. We have secured work for all three programs; however, there is little further detail we can provide.

Importantly, refining and chemical markets turned down precipitously starting in our third fiscal quarter. This is best conveyed by third and fourth quarter orders totaling less than \$35 million, when excluding the naval orders and factoring in the impact of \$5.9 million of orders from backlog that were cancelled. Consistent with sales, orders were heavily domestically weighted at 67% of total.

On to slide 13, backlog on March 31 was \$113.8 million, up slightly from last year and higher than it ever has been at year-end. The value of initiatives to leverage our capabilities into new markets is clear, when considering 55% of our backlog at year-end is from markets or customers not served five years earlier. Backlog conversion is projected to be 45% to 50% over the next 12 months, 5% to 10% at 12 to 24 months, and 40% to 45% beyond 24 months.

Please move on to slide 14. Our guidance for fiscal 2016 is for revenue to be between \$95 million and \$105 million; gross margin to be between 26% and 28%; SG&A to be 17% to 18% of sales; and our effective tax rate, 32% to 33%.

This guidance for fiscal 2016 reflects the impact of fiscal 2015 third and fourth quarter depressed orders from the refining and chemical industries and the effects of \$5.9 million of backlog that had been planned for 2016 that was cancelled, along with approximately \$10 million of backlog where conversion to revenue has been pushed to 2017 at the request of our customers. Also reflected in the guidance is our continued concern about the timing of our bid pipeline converting to orders.

With respect to cost management, the guidance reflects the savings anticipated from our voluntary early retirement program, which is expected to be approximately two-thirds in fiscal 2016 of the \$3 million of full year annual savings, due to timing.

As I mentioned earlier, despite this short-term setback in our refining and chemical markets, we remain focused on our near-term goal of exceeding \$200 million in organic revenue.

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

Operator: Certainly. [Operator Instructions]

Our first question comes from the line of Jason Ursaner with CJS Securities. Please go ahead with your questions.

Jason Ursaner: Good morning.

Jim Lines: Good morning, Jason.

Jason Ursaner: Jim, you mentioned the achievement of record orders and backlog, but you also talked about conversion taking longer than 24 months, at least, more than normal. Aside from the Navy order, the core markets more closely resemble fiscal year 2012 or 2013 before we saw some of the boom in domestic investment. Just how are you looking at next year in the context of the cycle overall and moving towards that long-term goal, and should investors be thinking about it as an earnings trough at all?

Jim Lines: Investors should indeed be thinking about it as an earnings trough, as the consequence of a very sharp and very sudden pullback in our refining and chemical markets. I think, compared to the fiscal 2012 and 2013 timeframe that you mentioned, looking at the backlog, it's fairly comparable. What's important, though, to bear in mind is the order environment today is different than it was in fiscal 2012 and 2013. There's more risk today than there was two or three years ago regarding the timing of when our pipeline converts to orders. Our most significant risk at this point as it relates to how high we can push 2016 is new business booked and its conversion, and that is different today than the timeframe of fiscal 2012 and 2013 you mentioned.

Jason Ursaner: Okay. One of the things you talked about last quarter was a sense that the price equilibrium returning to the market was somewhat more important than the actual price in terms of seeing investment return. Functionally, this has happened in that \$50 to \$60 per barrel range. It certainly doesn't feel like it in terms of confidence in finding a new level, though. What do you think about seeing orders return to the market and the pipeline of conversion to orders as you look towards fiscal year 2017 and beyond?

Jim Lines: Our thesis as it would pertain to a good price for oil or an equilibrium type price for oil is in the \$70 to \$90 per barrel range. While directionally, it's moved from \$50 up to \$60, that's very positive, I still feel it has some way to go before it is back to business as usual. Now having said that, what gives us strong confidence is looking at our bid pipeline, which still does remain elevated at the \$800 million to \$1 billion level for the trailing 12-month aggregate amount of our quotations. A very high percentage, in the 35% to 45% range, of that pipeline is refining, and we do expect that to convert and we do view this as timing. I think you characterized it correctly as an earnings trough. It's certainly in front of us for 2016, but by no means has our longer term outlook changed. We're going to manage across this downturn, come out stronger and capitalize when our markets do recover.

Jason Ursaner: Okay. And with fiscal year 2016 being what it is, you're still expecting to be profitable? Jeff, you mentioned confidence in the cash flow. You doubled the dividend. You certainly seem well capitalized or maybe even overcapitalized for operational needs. Why wouldn't we expect you to be more aggressive on the share repurchase?

Jim Lines: Well, one of the things that we'll be upfront about, borne in mind as to why there hasn't been share repurchase thus far, is, we entered into a voluntary blackout; for trading our shares because we felt highly confident that we were going to win the large naval order, and we felt we had material inside information. We judged conservatively to act prudently on the implementation of our share repurchase plan. We implemented a blackout and no trading of our stock by those that knew. The company knew about that order as being highly probable, so we entered a blackout period that doesn't open again until Tuesday.

Jeff Glajch: And Jason, we entered that blackout very shortly after the January earnings call, in early February.

Jason Ursaner: Got it, understood. Thanks.

Operator: Our next question comes from the line of Chase Jacobson with William Blair. Please go ahead with your questions.

Chase Jacobson: Good morning.

Jeff Glajch: Good morning, Chase.

Jim Lines: Hi, Chase.

Chase Jacobson: Jim, we appreciate your comments to the previous questions about your confidence in the bid pipeline and the fact that less of the prospects are refining than they historically have been. You've been doing an extremely good job winning the Navy work, but that doesn't really get going for a couple of years even if you get the next carrier coming in.

So what I'm trying to figure out is that, as we sit here today, you're looking at about \$100 million of revenue in fiscal 2016. It seems a long way off from the \$200 million. How do we get there from here? Are there more initiatives that Graham can put in place to gain share or do you really need refining and chemical and power and navy to all be working at the same time to get to that \$200 million level?

Jim Lines: There are a couple of ways that I'm going to answer this. One, certainly deploying our capital toward an acquisition would facilitate getting us there faster, and we do have an active acquisition program in place, so that would get us there faster. We cited that our strategy was to go from X to Y organically, \$100 million to \$200 million organically. That certainly is heavily predicated on the strength of our core markets, refining and petrochemicals.

Putting that aside for a moment, let's look at the building blocks. We've cited that going from \$100 million to \$200 million really would come from about a range of \$30 million to \$35 million for the power segment, growing from its current level today. That's not aligned with refining and petchem; that's taking market share; that's executing our strategy to get that segment of our business to grow.

Secondarily, the naval strategy; clearly, we're having some traction there and some success. Regrettably, it takes a period of time to get those wins into revenue conversion; however, it's clear to us that strategy is being actualized and should meet our expectations of being in the mid-\$20 million level of revenue.

So, if you put those two together – I'll pick an easy number that my head can do the math with, \$35 million and \$25 million – that's \$60 million of the \$200 million. That would leave us with \$140 million of the core work. I don't have much apprehension about us being able to do that, but it is predicated, Chase, on strong market fundamentals. We cannot create demand, but we can hustle inside the market we're playing in to take share to out-maneuver our competition. If there isn't a market, we can't make the market; therefore, the remainder of our growth, as it pertains to organic, does hinge on market fundamentals. I do want to qualify that we can also get from \$100 million to \$200 million faster via acquisition.

Chase Jacobson: Okay. So, the natural question is – and I guess this one is for Jeff – can you talk about the acquisition pipeline a little bit? It's something that you always mentioned, but now, if we might be entering a period with lower revenue for at least this year, can you talk about the acquisition pipeline a little bit?

Jeff Glajch: Sure, Chase. There are quite a number of opportunities in the pipeline and you've seen some activity within our markets recently. We have accelerated our activity there recently. As the energy markets have gotten a little soft, some of the pricing perhaps has gotten a little more favorable also, or will get more favorable, I think, is probably a better way to look at it, particularly for the type of companies that we're looking at. We're pretty encouraged about what's out there, and the pricing of what we think is out there, but it will take some time, as it always does, to get that level of equilibrium where we're comfortable. But be assured, we are being active right now.

Jim Lines: And just to go further on Jeff's comments, really, this pullback in our traditional markets has elevated the importance on our agenda of acquisitions. We're not pleased that there's a market pullback; however, it has occurred and we need to respond to it, so we are elevating the importance of our acquisition strategy. That doesn't mean we will move hastily, though. We're moving prudently and will follow our same discipline, but I can share with you that, at the board level and at the senior management level, it's more topical than it was when we envisioned several successive years of strong organic growth.

Chase Jacobson: Okay. On the gross margin guidance for next year, I understand about the pricing pressure and the lower volume. Up until a couple of quarters ago, you talked about better pricing and you're doing more of the work on your own, with less outsourcing. I guess the 400 basis points decline next year is greater than we expected. Can you maybe break that down as to how much of the decline comes from volume, pricing and other, and how does the restructuring offset that or how does that play into the guidance? Does that provide upside or is that kind of baked in already?

Jim Lines: The restructuring is baked in. In the prepared remarks, we looked at the restructuring as an annualized savings of \$3 million due to the timing of that flowing into our income statement. About two-thirds of that restructuring of savings will impact positively and is reflected in our guidance for 2016. In rough numbers, it's about two-thirds COGS and about one-third in SG&A on the annualized basis.

Most importantly, clearly there's going to be margin trending down. There are several drivers for that: First, management's discretionary decision to not take the easy path of aligning our capacity and cost with demand. That's formulaic. We know how to do that. To me, that would be wrong. We have a naval strategy that's taking off. We have embedded costs in our business well ahead of revenue and corresponding profits that are necessary to be able to execute that strategy. We're not going to unwind those, but they're in our COGS and they're affecting what you're speaking to here.

Secondly, we've built this incredibly strong value-based brand. There's immense unpriced value in how we support our customers in this down-cycle. If we begin to unwind that, we begin to take the luster off of our brand, which could be irreparably harming to our long-term pricing power. We're electing not to do that.

Thirdly, we need to have the capacity and the flexibility to be opportunistic when aftermarket orders come in, and it can be large. \$1 million, \$2 million or \$3 million is not uncommon. If we strip back our cost basis to align with our projected demand, we won't be ready to do that service to our customers or take opportunistic orders.

And then lastly and most importantly, we probably got a little too aggressive in the 2009 timeframe. In retrospect, we're very fortunate that the recovery limped along, and we could build our infrastructure. I'm not willing to limp into the next recovery, because we stripped out our capabilities in our business.

So, to recap, there was an intentional decision by management to keep the horsepower, support our value proposition and deal with this downturn and this earnings trough; that's reflected in our margins. Equally impactful is we're in a very harsh pricing environment. The scarcity of orders and the competitiveness of pricing is what we haven't seen in quite some time, so we're going to step in, we're going to defend our market share, and we're not going to let people enter into our core accounts. That's going to have a short-term impact on margin, but again, that's the right decision – it's a discretionary decision, and it's the right decision. I'm not happy with the pullback in gross margin, but it's for the reasons that I've just mentioned. In the long-term value creation from this business, it's the right call.

Chase Jacobson: Okay. That was very helpful. Thank you very much.

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

Joe Mondillo: Good morning.

Jim Lines: Good morning, Joe.

Joe Mondillo: First off, I wanted to ask if you could give us some perspective on how you're looking at where we are in this temporary or mini down-cycle or however you want to phrase it. Do you think you've seen the worst in terms of cancellations and weak orders?

I know it's happened really fast and it's been very severe over the last nine months. Are we at the bottom where you think there may be a flat line for a quarter or two and then possibly progress, or do you think, starting even in this quarter, are we continuing to see weaker results and there could be more risk of cancellations? How are you looking at where we are?

Jim Lines: Our view is our refining and petrochemical customers have exercised their immediate judgment for how they were going to react to the downturn, and I think that judgment will play out for much of fiscal 2016.

Is there a possibility of further cancellations? I think there certainly could be a possibility and that depends on how our customers view next year, the year after this year. Right now, though, I think the pain has already been seen in the supply chain and adjustments have been made. \$10 million of our backlog has been pushed from conversion in fiscal 2016 to conversion in fiscal 2017, not at our desire, but at the requirement of our customer. They don't want to cancel those orders, because they feel they'll get back to business as usual about a year out.

We'll watch with careful tension as this year unfolds as to whether those projects are becoming more risky or if the market environment is becoming more favorable. This is a very unsettled time. I wish I could be more definitive. I think businesses are exercising their judgment. I think the judgment that was exercised rolls out for the next few quarters, and then there's a more informed perspective as we exit calendar 2015.

In terms of the orders, it's going to be unpredictable. If you strip away the naval order from the second-half bookings, the underlying businesses' bookings were pretty rough. In the prepared remarks, we noted they were roughly \$35 million for the second half of the year. I don't feel that's necessarily sustainable.

I think the markets will provide more opportunity than that. As an example, through the quarter-to-date bookings, we're right at about \$15 million, so we have had some positive signs. Again, I like our pipeline. It is largely weighted toward refining. That's always been our strongest hand to play. And to me, it's just timing. Again, I wish I could be more definitive.

What gives us the enthusiasm and why we still feel we can execute our growth strategy going from \$100 million to \$200 million, subject to market fundamentals, is the enormity of our pipeline. It's just massive, and it's in our sweet spot: refining and petchem. We always do well

when that pipeline is bulging. It translates to orders at some point.

Joe Mondillo: Okay. I just have a couple of follow-ups, mainly on the oil refining part of the business. You saw about \$700,000 of orders in refining in the quarter. It feels like, not just from your business, but from the sector altogether, that the first quarter and maybe at least the first half is going to be the worst of it, at this point anyways. Do you anticipate a couple of quarters of that \$700,000 of orders, that weak of orders? Or does it feel like everything came to a head and everything sort of got frozen or pushed out a little bit and even considering the extremity of the environment right now, that's really not what you're anticipating on a quarter-to-quarter basis? Or is it that bad that it could be sort of the new normal for a quarter or two at least?

Jim Lines: No, Joe. I certainly don't think that is the case. I just want to clarify, in the quarter, that math is actually accurate, but it reflects roughly \$6 million of refining orders that were cancelled. If those orders weren't cancelled, new bookings would have appeared stronger from that sector. Net of those cancellations is a depressed result, but that did not convey the underlying bookings pattern from that segment of our business.

I feel much more confident in the depressed level of refining orders that were reported in the quarter, the fourth quarter, because they reflected \$5.9 million being cancelled from backlog.

Joe Mondillo: Okay. So the orders in refining were really about \$7 million, but then you take out the \$6 million of cancellations and it really looks like net-net.

Jim Lines: I don't recall the actual number, but I do know that, whatever the number was, it reflected deducting \$5.9 million of refining orders from our backlog.

Joe Mondillo: Okay. And the \$10 million of backlog that pushed into fiscal 2017, is that mainly all oil refining?

Jim Lines: Yes, it is.

Joe Mondillo: Okay. So, a big part of the gross margin for fiscal 2016 - I would imagine a large factor, if not the number one factor - is that oil refining is going to be maybe 20% to 25% of total sales as opposed to 30% to 35% as in the past couple of years and that generally carries higher margin. So is that the number one factor?

Jim Lines: Yes, that's a very influential factor. The summation of all this is the capacity utilization is underloading our assets. Through a discretionary decision that we've chosen to make, we're keeping our asset base strong, and therefore, it's impacting our gross margin, bringing it down. Again, as I responded to Chase, I feel the wrong call for the value creation capability of this business is to align capacity more closely with demand. That would be wrong and we elected not to do that. It's more an absorption of overheads, because of the embedded cost for the naval strategy and the fact that we will not take the luster off of our value-based brand.

Joe Mondillo: Right. I understand. In regard to, say, a two-year outlook of refining, these refineries, at least in the U.S., are running at the highest rate that they've been at in at least 5 years to 10 years, over 90%. A lot of these oil companies are just cutting across the board

trying to save any cost whatsoever. At this point, because the refineries are actually running at very high levels, your customers' production is very high, capacity utilization is very high, the environment should be actually strong, but because the other side of the business, the upstream and the rest of their business is struggling, they're making cuts across the board. Do you anticipate at some point they could put off this sort of work forever and maybe in a matter of a year the story could be actually completely different with your particular customers?

Jim Lines: We tend to reason through the market in a similar way that you've just described. It is possible to discretionarily delay maintenance and ongoing CapEx. Much of our U.S.-based refining activity can be a little bit of new capacity, but it mainly goes under maintenance and debottlenecking and revamps.

I have always been excited about the refining market. It does have intermittent pullbacks like we're seeing here, but as you've said, Joe, there's a point in time when they have to get back to investing and keeping those refineries going and we're excited by that. We'll be ready for that. They can't under-invest for too much longer in my view.

Joe Mondillo: Okay. Just two more questions. Regarding SG&A, in terms of the top-line guidance that you have given, it's somewhat comparable to fiscal 2014. When I look at fiscal 2014, SG&A as a percent of sales was 16.8%. The guidance that you're providing, the midpoint is 17.5%. I was just wondering why that would be higher, given a similar sales base of back in fiscal 2014. Is that related to the additional capacity expansion that you've built regarding overhead and more labor and such?

Jeff Glajch: Joe, as Jim mentioned, we've kept some cost embedded in the business to be able to take advantage of growth in the future, and that's really the difference between what you're referring to two years ago and today.

Joe Mondillo: Okay. So you were maybe a little bit leaner in 2014, but you're still anticipating a lot more work in a year or two and so you'd rather keep that capacity on hand?

Jim Lines: Well, the interesting part about our business, which is fantastic, but also can be troubling as you try to look at our cost basis, is we have this fantastic bid pipeline that has to be served. We need the SG&A assets, the S assets, really, supporting that bid pipeline and being there, even though our customers aren't spending money, doing the bid iterations, helping them develop the cost basis for their planned investments, and we are prepared to keep some of that cost in our business to support pipeline management.

So when they're ready to buy, we're the one most likely to win it. 2014 versus 2016, the pipeline is fairly similar, maybe up a little bit. Again, ultimately, we are reluctant to align costs perfectly with current demand, because we're not that type of business model.

Joe Mondillo: Okay. Then just lastly, in terms of the chemical processing and petrochem part of your business, the orders in that business have been relatively stable for the last five quarters; it's been a while since we saw that surge in the first half of 2014. I was just wondering what you're seeing within that business. Are there any opportunities in the next few quarters amongst that build-out announced down in the Gulf Coast in the U.S and considering that low natural gas prices and all that?

Jim Lines: Sure. A good amount of the first wave of work that we saw during that timeframe you were referring to came from new ethylene capacity. Six ethylene plants proceeded and we got five of them.

What we're seeing now, and we've been anticipating this, is, those plants are built to feed downstream derivative plants and we're beginning to see the inquiries for the downstream derivative plants that require all of our equipment, not just our surface condensers. We secured a little bit of that work already, but we're seeing that beginning to enter into our bid pipeline. It was a little long in coming, but we're beginning to see it now.

And then secondarily, we are also tracking between four to six new ethylene projects in North America. Having said that, I don't expect all of them to go ahead, but I do expect a few of them to go ahead, and I'm expecting our sales team to get us in a position to win those orders. So, we're seeing the next wave of activity begin to show up in our bid pipeline, and we're positive about that. We've secured a little bit of that work now, and there's more to come. We always felt that this North American petchem first wave would be in two phases, and I think we're entering the second phase now.

Joe Mondillo: Okay, great. Thanks a lot.

Jim Lines: You're welcome.

Operator: Our next question comes from the line of Chris McCampbell with Southwest Securities. Please go ahead with your questions.

Chris Campbell: Yeah. As a long-term shareholder, I'm thankful for your ability to manage through these cycles, but in regards to the M&A environment with pricing still relatively high, does it ever make sense to go the other way and solicit interest for Graham from larger companies?

Jim Lines: Good question. We think the value creating capability of Graham is still very strong. Is that a topic of discussion that we do have? Of course, but we don't think we've run out of runway to create value. We're all frustrated by the very abrupt and quick pullback from our core markets; although, we don't view that has disrupted or transformed our value creating model. We think remaining independent is the best way at this point to maximize the value of this business.

Chris Campbell: What would be the conditions that you would need to see to make that more likely?

Jim Lines: A suitor willing to pay the right price.

Chris Campbell: Understood.

Jeff Glajch: And Chris, to Jim's point on our value creation, if you look at our results in fiscal year 2015, they are a very good example of the kind of value that we can create in a good market. Unfortunately, as Jim mentioned in the prepared remarks, the market turned pretty significantly over the last six months to nine months, and we have to work our way through that. We believe we have positioned ourselves to create that type of value creation; and quite frankly,

quite a bit more as the markets recover, as well as taking advantage of the in-roads that we've made with the U.S. Navy and the power side. Then, over the next few years, when things tend to align both on the energy side as well as starting to see some additional conversion on the navy side and additional growth on the power side, we think our shareholders will be quite happy with what we've done.

Chris Campbell: Well, I appreciate it. Thanks.

Jeff Glajch: Thanks, Chris.

Jim Lines: Thank you.

Operator: Our next question comes from the line of John Bair with Ascend Wealth. Please go ahead with your questions.

John Bair: Good morning, Jim and Jeff.

Jim Lines: Hi, John.

John Bair: I was wondering, with the order cancellations, were those domestic or international or a combination, and likewise, with the \$10 million of push-out orders?

Jim Lines: They are North American, so some are in the U.S. in both cancellation and delays and some are Canadian. To be clear, they're all under our refining umbrella.

John Bair: Right. Well, the reason I'm asking is that in some of the trade publications I have read in the last month, I saw roughly six announcements of some fairly significant refining and petrochemical projects that have been set to go in Nigeria, India, Iraq, and Peru. I'm wondering if these other international areas perhaps are not suffering as badly as what appears to be happening domestically, or let's say, in North America. Could you elaborate some on that?

Jim Lines: Sure. In the international market, most of the refiners are state-owned enterprises, and in some cases, they're part of OPEC. Take the Kuwait work, and some upcoming Saudi Arabian activity, that is being impacted by their income and cash flow from the selling of crude oil. That's changing the pace at which they're investing in new capacity. We're aware of the Iraqi projects. We're also aware of Petroperú. We're aware of the projects in India. We have activity in those different areas, and again, our pipeline for all of our bids is heavily weighted toward refining. To me, that's a nice formula for future success.

John Bair: Okay. Do you anticipate or is it possible that some of these cancellations could possibly be resurrected down the road?

Jim Lines: I'll speak to each order specifically. One, I think was due to extreme need to preserve cash. It is an expenditure that has to happen, but it was a discretionary expenditure to occur right now. I do expect that project to be active again at some point when the market stabilizes.

The second order that was cancelled was the second half of a larger order that included Phase A and Phase B. Because that customer couldn't project when they would commence Phase B,

they're proceeding with Phase A and elected to cancel the second half of the order. Their long-term view is that they'll reactivate that, but they couldn't tell us if it was going to be fiscal 2016, 2017 or 2018, and therefore, they elected to just cancel it.

John Bair: That would require a full rebid process then?

Jim Lines: Yes.

John Bair: Okay. My last question is really more of a comment than anything, and that is, given the rather small amount of shares outstanding, from a personal standpoint, I'd rather see you use your cash to either increase the dividend a little bit, which I know you already just did, or towards a good acquisition. That's been a point that's come out repeatedly and I know you've had over the years, why you're sitting on so much cash and why you're not using it. I'd rather see it go towards a good acquisition than reducing the share count.

Jeff Glajch: John, just a response on your comment. With regard to the share repurchase, as you are aware, it's up to \$18 million and there's no requirement to spend that, so we can spend anywhere from up to \$18 million to as little as zero.

Jim Lines: John, I just want to add a follow-on to your comment and share with you that the Board of Directors and Management, each of us and collectively, are solely focused on long-term value creation, putting all of our assets to work to create improved shareholder return. We're disappointed in how fiscal 2016 is going to shape up. We understand how we got here, but virtually every conversation we're having is how do we create value more quickly than we otherwise are going to be able to do within this pullback? That's top of mind for management, that's top of mind for the Board, and we're thinking of the shareholder every day.

John Bair: I have no doubt. Thank you.

Operator: Our next question comes from the line of Jason Ursaner with CJS. Please go ahead with your questions.

Jason Ursaner: I know the call is running long, so I appreciate you taking the follow-up. Jim, I appreciate all of the details on the discretionary decisions impacting gross margin for what it's worth. Yeah, I agree that it's definitely the correct move for a long-term sustaining of the brand. The one factor I wanted to ask more about with that, though, is the harsh pricing environment that you mentioned. Is that all or mostly coming top-down from the producers and the EPC users, also any reflection on a changing competitive landscape?

Jim Lines: Actually it's on both sides of the table. This is more anecdotal, so I don't want it to come across as being broad based, but it's of sufficient frequency that it's impacting margins. From the customer side, we're seeing heightened attention on cost-based decisions and being willing to wait and let the suppliers burn through some backlog to become a little hungrier to get a more favorable price. We hadn't necessarily seen that in our past. We're seeing the customer be different in their behavior, more focused on getting the best price. Well, that has an impact.

And then, on the other side of the table, again, more anecdotally, so please don't consider this

as the ground model is broken, we have some near-term headwinds where our competition is seemingly being reckless on their pricing decisions. We have to decide are we going to let them take share or are we going to stand up and serve our customers and get through this, and make sure we retain that customer and they experience our value and they don't get exposed to our competition.

We're situationally being aggressive in what we're prepared to accept. We've had to shift when it's logical. We had to shift from being more focused on quality of order selection to driving volume, utilizing our capacity, leveraging our assets and defending our market share. Again, I think that's the right decision for the long-term health of our business, but it has some near-term implications on margin.

Jason Ursaner: Aside from price, though, in terms of technical capabilities and quality, are some of your competitors changing, or are they getting better, are you seeing any new competitors internationally? Or is it mainly just this price issue?

Jim Lines: It's mainly just price. We don't typically bump into new competition. It's our old competition with greater assertiveness and their willingness to dive on price.

Jason Ursaner: Okay. Regarding the Navy order in the quarter, I don't remember if that was in the original press release, but it's now implied that it was about \$35 million. Was that entirely CVN-80, and how does that compare with the \$25 million from the surface condenser order for CVN-79, or maybe with just total addressable content that you could have on a carrier order?

Jim Lines: It was not related to a carrier order.

Jason Ursaner: Okay. And just to follow up on the questions you had before on the acquisition pipeline, how active in the process or how far along would you be before it might lead to a blackout on the share repurchase? Is it going to be one of those things where every quarter there's enough going on that it's going to be difficult to get anything done there?

Jeff Glajch: Jason, this is Jeff. As I think back to when we bought Energy Steel, we did put a blackout on our management team and our Board for a period of time, but it was more like four weeks to six weeks before the acquisition closed in that case. It would not be a situation where we have a blackout for many months.

And just like the blackout that we put in around the Navy order, that just coincidentally happened to hit, it would have been an open window of approximately six weeks. It happened to hit right near the beginning of that six-week window, and the blackout related to the Navy order ended just after the window closed. Unfortunately, then we had a blackout on, because of our earnings, so in that particular case, the Navy case, it was coincidental in timing.

But to your question around an acquisition, we would likely not put a blackout until we were fairly certain that an acquisition were to close as we did with Energy Steel back in 2010.

Jason Ursaner: Okay. Appreciate the follow-ups. Thanks, guys.

Jim Lines: You're welcome.

Operator: Ladies and gentlemen, this concludes today's Q&A session. I'd like to turn the floor back to management for closing remarks.

Jim Lines: Thank you, Brenda, and thank you everyone for listening in on our fourth quarter and fiscal year-end 2015 conference call. We're very pleased to have updated you through a pretty detailed review of our perspective of the business and its outlook in the near-term. We look forward to updating you again on our next call. Thank you very much.

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