Operator: Greetings, and welcome to the Graham Corporation First Quarter Fiscal Year 2016 Financial Results teleconference. At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce you to Karen Howard, Investor Relations for Graham Corporation. Thank you.

Karen L. Howard: Thank you, Jerry and good afternoon, everyone. Thank you for joining us to discuss our results for our first quarter of fiscal 2016. 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 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.

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. Welcome to our first quarter fiscal 2016 conference call.

I am on slide three. We are executing our strategy to expand earnings by focusing on our distinct assets – our selling process, our engineering capability, our custom fabrication capabilities, and our capital assets – to capture greater market share and to expand our business. We're focused on improving the level of our predictable base business and in diversifying and strengthening our revenue streams.

Our key markets are refining, chemical/petrochemical markets, power generation, and serving the U.S. Navy. Short-term objectives include driving top line growth through capturing greater market share. Our near-term objective is to expand revenue to over $200 million across this cycle. Longer-term, we'll continue to leverage our distinct capabilities via diversification and expanding market share to continue to grow value for our customers and value from Graham.

Please turn to slide four. Highlights for the first quarter include revenue at $27.6 million, which compares to $28.5 million for the first quarter of fiscal 2015, down 3% year-over-year. First quarter net income was $2.4 million or $0.23 per share. This is consistent with a year earlier, with net income in that period of time at $2.4 million or $0.24 a share. Return on sales was 9% in the quarter. Backlog remains strong at $110 million. We also took action to level backlog conversion and spread revenue conversion across several quarters in addressing the change in outlook of our markets. We've also scaled back our costs through actions taken at the end of the fourth quarter to reduce our fixed cost base.

I'm on to slide five. First quarter sales were 36% from international markets compared to 22% last year. This was driven by increases to the Middle East as well as our Other markets. We did have strong refining industry sales, at just under $8 million. Chemical and petrochemical processing industry sales were just a bit above $11 million in the quarter. Power industry sales were $3.7 million. Our annual revenue for the trailing 12 months is $134 million.

Slide six, please. I spoke a moment ago about our efforts and our focus on expanding our predictable base business. I've been very pleased with our progress there. Compared to 10 years ago, we've expanded that by 2.5 times from what had been around $20 million back in the mid-2000s to just over $50 million last year, fiscal year 2015. Our goal and our expectation is to exceed $60 million from this segment of our business, which includes the nuclear market MRO, executing our naval strategy, our aftermarket strategies and our short-cycle new equipment sales. The important aspect of this strategy is it will reduce earnings volatility, as this segment is less cyclical.

I would like to turn it over to Jeff to review the financial performance.

Jeffrey F. Glajch: Thank you, Jim, and good afternoon. We're on slide eight. As mentioned, our sales in the first quarter were down a little bit from the previous year, yet our gross profit level was slightly above it, as we saw our gross profit margin increase by 130 basis points. The 130 basis point increase was driven by the mix of products that went through our facility in the first quarter versus last year.

EBITDA margin was flat for the quarter, and our EBITDA was just down slightly. Our earnings per share was off $0.01, although the earnings from a dollar standpoint were equivalent.

On to slide nine. Our cash position remains strong. We saw cash increase by $2.3 million in the quarter. This was driven by our cash provided by operations. Capital spending was relatively low in the quarter at $300,000. We do continue to expect capital for the full year to be between $2 million and $2.5 million.

I want to comment just briefly on our stock repurchase program, which was approved in January of 2015. We had not purchased any shares through the end of the first quarter which ended in June; however, since the beginning of July, we have purchased approximately 75,000 shares at a total cost of $1.4 million in the month of July. While the stock repurchase program is important, it is secondary to our intent to utilize our cash balance to invest in our organic business. The majority of that cash balance is really focused on investing in acquisition opportunities to grow our business inorganically.

With that, I'd like to pass it back to Jim to discuss the outlook for the remaining part of fiscal 2016.

James R. Lines: We continue to have order volatility due to end market fundamentals. Approximately 32% of our first quarter's new orders were from the refining industry. We are continuing to have a difficult time predicting when orders will release from our refining and petrochemical markets. While we have a healthy pipeline of opportunities, timing uncertainty is still in front of us. Geographically, first quarter orders were approximately two-thirds domestic, one-third international. On a trailing twelve-month basis, the order level was just under $130 million.

On to slide 12. We still have a very strong, terrific backlog that's at $110 million. It's very diversified, and it shows the strength of our naval strategy, which represents almost half of the backlog at this point in time, 48%. Importantly, 55% of our backlog is from customers or markets that our company did not serve five years ago.

Our backlog is different; it is more extended in terms of the conversion cycle. At this current point in time, 45% to 50% of our backlog will convert over the next 12 months. Going back several years ago, that was closer to 90%. Currently, 40% to 45% of our backlog converts 24 months or beyond.

We are confirming that fiscal 2016 full-year guidance is unchanged, with revenue between $95 million to $105 million, gross margin ranging between 26% and 28%, SG&A as a percent of sales expected to be between 17% to 18% and we expect our effective tax rate to be 32% to 33%. While we're managing through a difficult set of market fundamentals in refining and petchem markets, our strategies and our vision is on growing Graham. Our long-term expectation is to continue to grow Graham, with a near-term goal of exceeding $200 million of revenue across the cycle.

With that, I would like to turn the call, Jerry, over to Q&A. Thank you.

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] First question is from Joe Mondillo, Sidoti & Company. Please go ahead.

Joe Mondillo : Hi, guys. Good morning.

Jim Lines: Hi, Joe.

Jeff Glajch: Hi, Joe.

Joe Mondillo: I'm wondering if you could talk about the oil refining business in general. It seems like the orders were pretty solid in the quarter. It also doesn't seem like you have a ton of visibility. Can you give any color around what you're feeling with your customers? It seems like the refiners in general are actually doing quite well. Any other color that you can give us regarding products or demand there?

Jim Lines: You are correct, Joe, that the refineries themselves are doing quite well financially. We still do have a great amount of bid work for the global refining markets. The behavior of the refining industry really depends upon what type of refiner it is. Our national oil companies, they're still in an unpredictable period with regards to when they will release orders, due to financial constraints they're having tied to the price of oil. That is similar to what we're seeing at the integrated refiners who have both exploration and production along with refining assets. While refining assets are performing extraordinarily well, they are still conserving cash and pulling back on their CapEx in the near term to address the headwinds they're experiencing on revenues and cash flow. The independent refiners are where we're seeing some vitality and the most enthusiasm and perhaps a little better predictability around order timing because they're less affected by the price of oil.

In general, we still remain very encouraged by the level of activity in the refining sector, with our gauge being the amount of bid activity we're seeing. However, we are still regrettably at a point in time, Joe, where we don't really have an easy methodology to predict when orders are going to be released.

Joe Mondillo: For you, has anything really changed over the last six months? Has it been a wait-and-see uncertain type of time over the last six months, or has anything over the last two or three months gotten you any more positive or negatives at all?

Jim Lines: We're still in this foggy area. The recent fall-back from what had been roughly $60 a barrel to roughly $50 a barrel has a negative implication because we were beginning to believe we were on stable ground at around $50 a barrel. In our view, the catalyst for getting back to business as usual is stability around the price of crude oil, such that there's predictability in projecting financial returns and they're on solid foundation from which they project.

We really haven't had feedback from our customers saying that catalyst is now in front of them and they're feeling very encouraged in the short term. What we are hearing is these are short-term headwinds. Long-term investments will be made. Discretionary decisions to delay investment for maintenance-type purposes can only be done for a short period of time. We do expect that our level of orders that would relate more to refinery upkeep or investing in brownfield assets will return to normal before large CapEx for new capacity. That's a very important segment of our sales. It can be of equal importance as new capacity. We think that occurs sooner than investment in new capacity. As I said, those discretionary decisions to delay those types of investments can only be done for a short period of time, in our view.

Joe Mondillo: Okay. I thought it was interesting in regard to your domestic versus international orders, the domestic orders have actually been relatively stable for the last five quarters, if you take out the Navy order from on the fourth quarter. What are your thoughts on that? I would've thought that North America would've been impacted as relatively heavily as the international field. But what are your thoughts on domestic holding up on the order side?

Jim Lines: Within our domestic sales, we're going back to our predictable base; excluding the naval type work, our short-cycle work, our nuclear MRO work, much of our aftermarket largely is domestic oriented. That's all fairly stable, less cyclical. When the large capital work globally pulls back, that becomes a more important weighting of our overall orders. There is that effect at play, and we're also seeing some investment by the refining and petchem market in North America, although by no means is it predictable or like 18 months ago. We did win another ethylene project and we have won some refining work in this last quarter, which was encouraging, but it's not indicative of the rapid pace we saw for order placement 24 months ago.

Joe Mondillo: Is there any difference in margin on the work that you do internationally versus the domestic work?

Jim Lines: In general, yes. North America provides the best margin potential; however, some international work is comparable. It depends on the region. We view the Middle East and some South American opportunities as providing similar margin potential as the U.S., whereas Asia has a bit of a different margin potential.

Joe Mondillo: Regarding backlog, if we're seeing domestic orders hold up, international a little weaker, are you seeing a mix shift in gross margins in the backlog? And regarding gross margins, you had a very good first quarter. It seems like the low end of the guidance would imply very low gross margins, even lower than what we saw in the 2009, 2010 downturn. That's a two-part question, and then I'll get back in queue. Thanks.

Jim Lines: Sure. As we look at the orders being booked from an accounting margin standpoint at order entry, they are strong. When we look at the absorption and factory utilization as our throughput drops, that's where you begin to have the margin erosion. While we have an as-booked accounting margin, that's assuming some level of absorption. As our utilization declines, as the revenue drops, the absorption effect is counter-balancing the as-booked project margins. In general, we are expecting to have that margin penalty because of the under loading in our facilities, which is what our guidance reflects.

Joe Mondillo: Okay. The second part of the question was relating to the guidance in terms of the low end of the gross margin guidance. That would imply that gross margin would have to fall off pretty big, sort of to the mid-20%. Is there a quarter or two that we should expect a possibility of that?

Jim Lines: If we think about our order pattern from Q3 to Q4 of fiscal 2015, scratching the Navy work, there is a fairly appreciable under-loading of our operations as that backlog converts into revenue. That will begin to show up in Q2 of fiscal 2016. It's just the timing of backlog conversion, and it's the fact that we have to deal with the level of bookings that we had in Q3 and non-naval bookings in Q4. So that will have an effect, due to the leverage that we just spoke about, on the absorption of overheads. While the booked margin looks fine, the actual translation of that margin to a realized margin due to absorption is expected to negatively impact Q2.

Joe Mondillo: Okay. Understandable. All right. Thank you.

Jim Lines: You're welcome.

Operator: Next question is from Paul Dircks, William Blair. Please go ahead, sir.

Paul Dircks: Good afternoon, guys. How are you doing?

Jeff Glajch: Good, Paul.

Jim Lines: Great, Paul.

Paul Dircks: Good. Just a couple questions here from me. First question I have is also related to the backlog. It looks as if you had a nice uptick in power awards during the quarter. Was this due to any particular projects, or is this more of a sign of some of your enhanced focus on driving growth at Energy Steel?

Jim Lines: We are focused on driving long-term growth in Energy Steel. That has not been realized yet. I would not at this point encourage projecting from the power market orders in Q1. We haven't had the lift yet that we're anticipating from our nuclear utility strategies.

Paul Dircks: Okay. That's helpful. What was behind the award performance in the quarter in power?

Jim Lines: Just the timing of some non-nuclear related orders that aren't there always, as they're more of a one-off.

Paul Dircks: Okay. Understood.

Jim Lines: From our renewable energy markets.

Paul Dircks: Got it. Okay. That's helpful. Any update you guys can provide on the timing of the next Navy carrier award?

Jim Lines: The best we can judge is it should be out for bid in calendar 2015, and we would expect it to be placed in calendar 2016, as best we can judge. It could be a fiscal 2016 booking but more likely a fiscal 2017 order.

Paul Dircks: Okay. That's also helpful. Two more for me quickly here. Maybe this is more of a qualitative question, but how does the margin profile of some of the recently booked awards in your legacy markets compare to that of your legacy markets awards back in fiscal 2010, coming out of that downturn?

Jim Lines: I'd say on average, they are up a little bit. That was a tough time in 2010 with some of the work that was secured. I can say though, while we've had okay margins that we've secured, there are some incredibly rough margin opportunities out there. Some of it we didn't win, and we're seeing our competition applying what I'll characterize as reckless pricing policies. We will have some situations where we will step in to protect our turf, our market share, and prevent an entrant into a key account. But thus far, answering your question, we haven't really seen that affecting our booked margin and backlogs. But I want to be clear, there is some tough stuff out there that we may take.

Paul Dircks: Is some of that tougher pricing domestically or more internationally?

Jim Lines: It's generally more internationally. I don't want to have this get too much weighting, it's a little more anecdotal. But we are seeing it at times in our domestic market. It depends on the end user, their sensitivity to price versus value. We have seen some unusual behavior with certain customers. I want to characterize it as anecdotal, but it's there enough that it's on our radar screen.

Paul Dircks: Okay. That's helpful color. Final question for me. It seems as if you guys are being more assertive, certainly with your commentary regarding acquisitions. Maybe you could talk about how you're evaluating the prospects out there in the marketplace. Is your expectation for pricing to further improve for some of the targets you're considering or has it already improved? What's driving your confidence in making an acquisition?

Jeff Glajch: Paul, I think it's more incremental focus than necessarily confidence. But I guess from that focus, perhaps one gets additional confidence. As we look at this time last year when we had a very strong organic ramp ahead of us, we had taken the foot off the accelerator a little bit on looking at acquisitions. We have refocused. Both management and the board are very supportive of our acquisition activity, and we have moved that up on the agenda of things to look at. It's really more focused on our part rather than anything beyond that.

With regard to pricing, pricing's still a little bit rich right now. There are a lot of buyers chasing things, so we haven't seen a meaningful drop down in price but we'll certainly keep our eye on that.

Paul Dircks: Certainly appreciate the detail. Thanks, guys.

Jeff Glajch: Thanks, Paul.

Jim Lines: Thank you, Paul.

Operator: We have a question from Peter Rabover, Artko Capital. Please go ahead, sir.

Peter Rabover: Hey, guys. How are you? If you guys can talk about your backlog and your recurring business, how much of your recurring business is in the backlog? Or should we think of those two separately?

Jim Lines: I'm going to give it my definition to make sure I'm calibrated to your question. Our recurring backlog or our predictable backlog, which I've put in as aftermarket and some short-cycle work, ex-Navy, is typically around 10% to 15% of the backlog we have currently. It's in that category. If we include Navy, which we are characterizing as our predictable base because of its long conversion cycle, then that's nearer to 60%, 65% of our backlog.

Peter Rabover: Okay. So the $50 million to $60 million number that you're talking about, part of that is in the backlog.

Jim Lines: Yes.

Peter Rabover: Okay. I think the first caller asked a lot of this, but I wanted to follow up on the refining and petrochem markets. Is there anything that you guys look at longer term that drives the market that you've noticed over the years? Is it the spreads, WTI spread or the capacity utilization, something that we could probably pay attention to as well?

Jim Lines: Capacity utilization certainly comes into play. It's primarily correlated to the price of crude oil, from what we have seen. And they tend to come in very tightly clustered increments. Our refiners are focused on economy of scale. For example, when I started at Graham 30 years ago, a world-scale refinery may have been 150,000 barrels per day. Therefore, to get 1.5 million more barrels a day, there were 10 refining projects. Today, a world-scale refinery is 400,000 barrels per day. You may have seen the press release for the Kuwait Al-Zour refinery is 600,000 barrels per day. For an incremental 1.5 million barrels per day of additional requirement capacity instead of 10 opportunities, there may be five. It's a different dynamic, and they come in larger increments and more clustered from how you might characterize the 80s or 90s.

Peter Rabover: Okay. That's very helpful. Thanks. Have you guys looked at what the impact would be if the oil export market ban would be repealed or the Jones Act would be repealed, how that would affect the refining markets?

Jim Lines: Being able to export would be helpful to us. I think it that would then drive more investment in the brownfield sites that are already here which move more quickly. I do view that as advantageous to us. I can't comment on whether or not that's highly probable.

Peter Rabover: Right. I wanted to see what you guys are thinking on the impact of that. I know you talked about the acquisition stuff. But maybe on a larger scale, how do you guys think about capital allocation longer term, especially given the large cash balance that you have?

Jeff Glajch: We think about capital that's on the balance sheet, our primary focus is to use that for growing inorganically via acquisition. That is our foremost focus for that capital. And then we obviously have a share buyback in place, but that's a very distant second to utilizing it for acquisition. If I can take a second cut at that also. If you look at the way we think about our annual cash flow from earnings, from operations, our main focus there is to reinvest in our business. And there's enough annual cash flow that reinvesting in our business is more than covered by that annual cash flow.

Secondarily on the annual cash flow is payment of dividends. Obviously we have enough cash flow to do both on an ongoing basis. Again, the annual cash flow is organic growth and dividends and the balance sheet is acquisitions and the buyback is a distant second.

Peter Rabover: Okay. Are there metrics as a return on cash, return on capital?

Jeff Glajch: True. I mean we're certainly focused on our return on capital. Regarding our return on capital, we look at it two ways: we look at it in terms of total capital, and then we look at it excluding cash, given our large cash balance. But we believe long term, it's most important to look at it including cash, which puts the requirement to get some return on that cash. The return on capital is very important to us. Obviously, we don't have debt, so return on equity, return on capital are pretty much the same.

Peter Rabover: Right. Okay. Well, that's it from me. I appreciate it. Congratulations on a pretty decent quarter and the stock price today.

Jeff Glajch: Thank you.

Jim Lines: Thank you, Peter.

Operator: We have a question from Brian Rafn, Morgan Dempsey Capital Management.

Brian Rafn: Good afternoon, Jim and Jeff. How you guys are doing?

Jim Lines: Great, Brian. How are you?

Jeff Glajch: Brian, very well.

Brian Rafn: Jim, you had some very good color on what you talked about in the refinery area relative to maintenance that it can only be put it off for so long. Is the pent-up demand there, the delay in, say, maintenance cycle versus new capacity, could that be put off for months? Or is that 18 months, couple a years? How long can they forego that discretionary spending?

Jim Lines: This would be my judgment or my observation. I think those discretionary decisions around maintenance, revamp, anf replacement have a several-quarter duration not too much longer than that because the wrong decision there and an unscheduled shutdown is very dramatic and traumatic. I feel it's shorter in duration than 18 months, as an example, if that answered your question.

Brian Rafn: Okay. Good answer. With the investments you guys have done the last several years, to get to your $200 million revenue long-term goal, real fine investments in CapEx, employees, if we have a lull here with the oil and gas, the spot rates, what are you guys doing relative to SG&A head count? Are you furloughing people, extending vacations? Or can you find other jobs, such as short-cycle work to do?

Jim Lines: We're focused on keeping the team and not taking near-term action for a few pennies on profitability. The mandate to the sales organization is to focus on volume, be less focused on the quality of the order intake and drive order intake and drive up factory utilization and give our team work to do. That's focused on our short-cycle segment, our aftermarket segment and any capital sales that are out there. We are taking an urgent view that we want that work. We're not being imprudent about our pricing policies and our pricing discipline, but we are chasing volume to fill up our capacity and give our team work to do so we don't have to implement countermeasures. We do have countermeasure plans in place such that if our scenario analysis is different than what our judgment has been, we will take further action. We realize that, with solid order intake, we utilize our assets, both physical plant and people and we don't have to execute our countermeasures; that's my hope.

Brian Rafn: Okay. That's good. Appreciate the perspective. On the Navy side, the new Zumwalt DDG destroyer has a massive increase in the electrical capacity generation of those ships. For the carriers, there is the EMALS catapult. For some of the smaller ships, the cruisers, the destroyers it's lasers and electromagnetic railguns. When you guys move from CVN-79, the Kennedy, to CVN-80, the Enterprise,do you see specification, size, technology change between carriers?

Jim Lines: We haven't seen the use of the non-steam catapult system affecting the size of our surface condensers. Therefore, 78 appears to be the same as 79, appears to be the same size as 80 or 81. We're not seeing those progressive changes in carrier architecture affect our equipment.

Brian Rafn: Okay. Good. Anything on the next-generation fleet ballistic missile sub boomer for the Ohio Class for you guys in the sub area?

Jim Lines: Nothing new to report there, and bearing in mind there's little that we can say as we've indicated on prior calls, we have acknowledged that we are executing our strategy, which involves participation in the two submarine programs. And we have entered both with some work in our backlog.

Brian Rafn: Okay. Jeff, do you have a price on the treasury purchases? You had an overall value, but you don't have a share price, by chance?

Jeff Glajch: Not at this point, I would not put that out there. No.

Brian Rafn: Okay. Thanks, guys.

Jim Lines: You're very welcome. Thank you.

Operator: We have a question from John Bair, Ascend Wealth Advisors. Please go ahead, sir.

John Bair: Good afternoon, Jim and Jeff.

Jim Lines: Hi, John.

Jeff Glajch: Hi, John.

John Bair: I've got a question going back to this refining thing. As I understand it, the capacity utilization in the U.S. is something in the order of the mid-90s. On that basis, it would seem to me that there would be a lot of interest in expanding the capacity of existing facilities and so forth. I'm wondering if you have any sense that perhaps projects to do that, expand or upgrade, might be being pushed off into the winter months when traditionally, gasoline demand is lower and that maybe there could be some release of projects at that time?

Jim Lines: John, we haven't noticed that, what you commented on. We remain very committed and very bullish long term about energy, about domestic refining, about global refining.

What we're seeing now is focus on maximizing what they get from the existing refining assets, and a willingness to make certain brownfield investments to improve what they call yield conversion or bottom-of-the-barrel conversion. This is to make sure they're optimizing each barrel of oil input into the refinery, they're converting as much as they possibly can to valued refined products such as transportation fuels.

Invariably, those revamps, those de-bottlenecks, those capacity improvements to create greater refined products affect the distillation columns, affect the downstream processes where our equipment is. We're involved in those critical processes and as they debottleneck, we'll look at how to improve yield conversion. We benefit from that greatly, and that's where we're seeing the attention now by the refiner because those have quick paybacks, the ROIs or the internal rates of return are strong. Those seem to pass through relatively quickly through the budgeting process. That doesn't mean a flood gate's opening, but we're seeing enough conversation that it has us enthused about brownfield domestic investments, which we categorize as capacity creep.

John Bair: Okay. Maybe out in California, they'll start opening some stuff up. I'm sure those folks out there aren't happy with their high prices. On a related note, earlier this week, I saw an article that indicated three pretty significant projects in Egypt. One was a $1.5 billion modernization project. Another one was a $1.4 billion project expanding an existing refinery from 100,000 to 160,000 barrels a day and then two other refining upgrades. My question here is, I'm sure you're aware of those, if I am. Where in the process, once those things get let go, so to speak or commissioned, do you potentially come into the picture of picking up some of that business?

Jim Lines: In general terms, giving it a timeline, if a refining project is five years in duration, we typically are participating in the awards that are in the first six months to 18 months. Then the revenue recognition is 12-ish to 15 months after we get the award. We're often considered a critical item in the refining process, and we might be involved in the first wave of procurement, which is why it might happen as early six months in that five-year timeline. We tend to be in the first one-third rather than the second one-third of the cycle.

John Bair: Well, one of them was supposed to be operational by late 2016 or 2017; one of the projects had a $1.5 billion monetization capacity upgrade and the total project was close to $3 billion. I would think hopefully, you're in there on that or going to be close to it. To your comment earlier, Jim, about world-class refining capacity being 400,000 barrel a day, would that mean larger projects, would that mean larger dollar orders for Graham?

Jim Lines: It does mean the order size would be larger. But in a general sense, due to the economy of scale, going back to the example that I cited, instead of 10 smaller orders adding to a total aggregate opportunity set, there might be five or six. Generally, because of economy of scale, the total dollars spent for six will be less than would have been spent for 10.

John Bair: Yeah. Okay.

Jim Lines: The order size in isolation is larger. But I wanted to let you know that we're thinking about it in terms of incremental capacity and the dollar potential.

John Bair: Right. Okay. One last quick question is, with your capital expenditure plans, is there anything that you're seeing on the horizon beyond the $2 million to $2.5 million that you're expecting for this year? Beyond that, is your CapEx spending kind of on hold, excluding minor things? Or are you sitting back to and wait and see how this plays out over the next six to 12 months?

Jim Lines: We'll be watching the market fundamentals. It's not our intent to play defensively. We are thinking right now, with the investments that were made over the last six or seven years, we have invested $18 million of capital. We want to digest that, grow into that and make sure we've optimized that. In that context, we would have CapEx nearer to depreciation or maybe 1.5 times depreciation as more normal.

However, having said that, there are clear mandates by the operations team to create throughput, to create productivity. And as we take on additional work, say, additional naval work, there could be some large CapEx that would be around machining type of equipment, not to the magnitude of the $6.5 million we made but, instead of $2 million or $3 million, we might have a $4 million, $4.5 million a year tied to a particular situation. That's how we're thinking about it. But I just want to let you know that we are taking what we just invested, which is a fair amount of money. We're making sure we've optimized our utilization of that investment and are getting the right return from that and tasking the team to leverage that. However, we are also tasking the team to create productivity and improve throughput. If that means capital and it has an appropriate equity-based return, we'll fund that investment.

John Bair: Okay. Very good. Thank you.

Jim Lines: You're welcome.

Operator: Ladies and gentlemen, at this time there are no further questions.

James R. Lines: Thank you. Thank you, Jerry. We appreciate everyone's time on the call and for your questions. And we look forward to updating you on the next conference call. Thank you. Have a good day.

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