Deborah Pawlowski: Good morning. I am Deborah Pawlowski, Investor Relations for Graham Corporation. With us here today is Jeffrey Glajch, Vice President-Finance & Administration and Chief Financial Officer. Jeff was appointed to the position of CFO of Graham Corporation in March of 2009. He brings to us over 25 years of financial experience.

Jeff joined Graham after the retirement of our previous CFO and he brought with him acquisition experience. He will talk to you a little bit about acquisitions as part of the strategy for growth for Graham.

With that, let me turn it over to Jeff.

Jeffrey Glajch: Thank you, Deborah, and good morning everyone.

For those of you on the webcast that are following along, hopefully you can follow along on the slides. On slide two there is a Safe-Harbor statement which you are welcome to read. I am not going to read it, but certainly will follow the information on there.

Let's move to slide four and talk about our business and strategic overview. We have a business that we are looking to grow to $200 million in revenue. We have a target to have an EBITDA margin averaging over 17% and a return on invested capital over 12%.

Fiscal 2016 was a pretty rough year for us. The energy markets were impacted very dramatically by the drop in oil prices and the significant drop in capital spending by our customers.

The petrochemical market was impacted also and, as you can see, in fiscal 2016 we did not achieve the financial performance that we would have liked to achieve relative to our goals. We had achieved those in fiscal 2015.

We saw a pretty significant step down fiscal 2016. We are in a little bit of a rough period right now. But as you'll see, some of our diversification strategies are starting to take hold and will help us through this period. And then, what we believe is the inevitable recovery of the energy markets will help project us toward our $200 million goal which, again, I'll give a little more detail on shortly. Just to clarify, that $200 million revenue goal is an organic goal.

Please turn to slide five. We believe that we're executing our strategy to expand our earnings and to reduce volatility. We leverage our assets to capture additional market share, both in this downturn, as well as when the market picks back up. We want to expand our predictable base business, which I'll describe in a couple of slides. We want to diversify and strengthen our revenue streams. We want to be able to handle these market impacts, the sharp turn in our end markets, a little better and ultimately want to reduce our earnings volatility, as well as grow them.

Talking about our diversification strategy, these charts on slide 6 illustrate what our business mix was last year and what our business mix is expected to be as we get into that $200 million level. If you went back further, you would see the business mix has already started to evolve.

If you look at our business today, you'll see that about two-thirds of it falls into refining and petrochem markets, which is obviously why we're impacted by the downturn that we see.

As we grow our business going forward, we're looking to see those markets recover, but then also to see more growth in our power business and our U.S. Navy business. If you went back even further in our history, back to 2009, you would see that instead of being two-thirds of our business, refining and petrochem were three quarters of our business. We've already started that evolution and we're continuing down that path.

We have four key markets and I'd like to walk through them in a little more detail here on slide seven. They are refining, petrochemical, the U.S. Navy and power. The refining market can be separated into three groups of companies: the state-owned refiners, such as Pemex, Saudi Aramco or Kuwait National Petroleum. There are multi-national integrated refiners, like ExxonMobil, Chevron or Royal Dutch Shell. Then there are the independent refiners, primarily here in North America.

One question that I get a lot is, since the refining market is doing quite well, why is Graham so strongly impacted by what's going in the energy markets? That is a correct statement, the refining market is doing very well. However, two of those three customer groups, the state-owned and the multi-national integrated companies are significantly impacted by lower oil prices and have been cutting their capital spending because of that. Those two groups are bigger customers for us. Our largest customers in the refining group for us are the state-owned refineries, and the next largest group for us are the multi-nationals.

Within the group of independent refiners, while the crack spreads have been so significant, they've been running very hard and, therefore, delaying maintenance. All of that is adversely impacting our business. The delaying of the maintenance work is, in our view, a matter of time until they will start to spend there.

That certainly could help us a little bit at some point in time, but until the energy markets stabilize and there is predictability into the future, we believe they have tough sledding in the near term.

In the global petrochemical market, there was a first wave of activity in North America that we benefited from about two and half or three years ago from an order perspective. Those worked through our revenue in our fiscal year 2014 and fiscal year 2015.

I probably should clarify one thing, when I talk about our fiscal years, our fiscal year ends in March, so I talk about fiscal 2016 that ended a couple of months ago.

In fiscal 2016, we saw a drop off in our petrochem market as we finished working through a number of those first wave projects. The order level dropped down in fiscal 2015 and into fiscal 2016, and we expect that will continue with more of a lower stabilized level in the near term. We're not seeing significant investment at this point as the capacity that is been put into the market is currently being absorbed.

Those plans for the next wave are starting up now. Our work occurs a couple years before they actually start up. So we really work through those while the first wave capacity is coming into the market and being absorbed.

We do believe there is additional investment coming in North America in petrochem in the future. We don't anticipate that the second wave will be as strong as the first wave and it will take a little bit of time again for the current capacity to be absorbed in the market, but we will see some opportunities in the next few years.

The U.S. Navy is an interesting market for us. We have served the U.S. Navy for 80 years, since the company was founded in 1936. However, we served it somewhat intermittently for those first 70 plus years. When our commercial market was weak, we would start working with the U.S. Navy. When our commercial market was strong, we didn't have the capacity back in those days to support the Navy.

We have a different view with the Navy today and they understand that. We have invested in capacity for the Navy. We've had to invest to provide separate production facilities for some of the Navy work because of security requirements and we believe we've turned the corner and have seen that business grow for us.

It has not yet grown from a revenue standpoint; we have seen in the neighborhood of about 5%, 6% of revenue for most of the last five or six years. However, the order level and the backlog level have grown substantially and it has set us up very well for the next couple of years.

If you look at our backlog, we have approximately $50 million worth of projects in backlog for the U.S Navy. However, those are projects that take, from order to shipment, four to five to six years. And those are projects that take a couple of years of engineering work before you can start recognizing revenue.

We do have Navy projects that are currently recognizing revenue. We also have a very large project that we won about 15 months ago and we will start recognizing revenue on it during the next fiscal year, in fiscal year 2018. And then we are looking forward to an opportunity to bid on yet another nuclear carrier project that is out to bid this year.

We have historically been in the carrier business. We've recently added the submarine business. Our backlog at this point is in the submarine area, but there is another carrier out to bid this year and, based on our success on the last carrier, we believe we're in a very good position to be successful and win that opportunity.

Regarding the power business, Deb had mentioned acquisitions. The power business is made up of two areas. The biggest piece of it is an acquisition that we did in December of 2010, late fiscal year 2011 for us, a company called Energy Steel, which, at the time, provided MRO equipment into existing nuclear plants.

We've continued to focus on that market and we've also won some opportunities with new build opportunities that are being done, projects in South Carolina and Georgia in the nuclear market.

It's primarily a domestically-focused business but we've had a few opportunities internationally. We'll continue to look internationally to grow that, but for us to grow that business the focus is on the existing domestic nuclear plants.

That's the majority of our power business. It's a business that has been relatively revenue balanced since we bought it. However, we've made some pretty significant personnel investments in that business over the past 12 months.

We've seen our order levels step up there. Our backlog level has stepped up and we think there is a significant amount of growth. I'll talk about that in a couple of slides.

I don't want to just talk about nuclear power. We also have some alternative energy opportunities in the power market. These are more aligned, product-wise, with evolution out of our refining and petrochem markets. We go after alternative energy opportunities in the geothermal markets, the waste-to-energy markets and areas such as biomass. Those are all areas of opportunity in the power business, but the majority of our current power business is in the nuclear arena.

How do we get to $200 million? We were at a $135 million in fiscal year 2015; unfortunately we saw a drop because of our weaker end markets down to $90 million in fiscal 2016. How do we get back there and then ultimately get to $200 million?

In this chart on slide eight, you can see the first two areas beyond the current $90 million are refining and petrochem. Highlighted in light blue is that part of the market that was reduced because of what's going on currently in the energy markets; we need that to come back, obviously. We also believe there is additional share that we can take in those markets.

The first part of this requires a recovery. The rest of it, though, and the power and U.S. Navy side are the benefits of our diversification strategy and we are getting those benefits. The power side is continuing to see the order level grow and we are able to execute on our ability and take market share there.

On then the U. S. Navy side, the majority of that is executing on what we already have in backlog in fiscal 2018 and fiscal 2019 and beyond and then also just continuing to see success in the carrier and the submarine arenas.

As I said, a portion of this is market driven for the refining and petrochem and portion of this is more internally driven and really executing on what we have in place. We believe we can get to $200 million. We believe we can get there organically. I'll talk to you in a couple of minutes about our acquisition program to grow beyond $200 million in organic revenue.

Now let’s move on to slide nine. I talked a little earlier about our predictable base business, and this is something that we've been focusing on over the last number of years. You can see this predictable base business has grown from about $25 million to $30 million, up closer to $45 million to $50 million over the last number of years.

What makes up that predictable base business? Well, first off is the nuclear market MRO business that is a replacement business. It involves the replacement of equipment in existing nuclear plants, not a replacement of Graham components, but rather a replacement of equipment from other OEMs. Why is that a good business for us? It’s good business because many of those OEMs are no longer in the nuclear market.

If a company does not have the correct certification, they are not allowed to sell into the nuclear market. Many of the OEMs that were in the nuclear market in the 1970s and 1980s and the early 1990s when plants were being built left that market. Now their equipment needs to be replaced, but they are no longer allowed to sell into that market. Our Energy Steel business will get those engineering drawings from the OEMs, manufacture the equipment and sell it to the end market. It is a very predictable business, so we like that.

We we have an aftermarket business in the refining and petrochem sector, providing aftermarket equipment for Graham installations only. That’s also a predictable business, we like that. There are aftermarket components within the equipment that we provide and that can run for many years beyond our initial installation.

Moving on to short cycle product strategies. We have some smaller products that are quick order to shipment. They can be order to shipment within a couple of weeks to a couple of months. It’s a relatively predictable business, something that we are aggressively marketing, and adds to that predictable base for our business.

The U.S. Navy piece is a little bit different. You may wonder how the U.S. Navy piece can be a predictable business, the orders are not $50,000, $100,000, $200,000 orders, they are $5 million, $10 million, $20 million-type orders. How can that be a predictable base business?

The reason we view it as a predictable business is, once you have the orders, the execution of them is very predictable and you can predict it over not just a six month or a 12 month timeframe, but rather over a three or four or five or six year period. From an operational perspective they are very predictable and, importantly, from a financial perspective we can identify that we're going to have that revenue over a number of years once we have those big orders in place.

Adding all those together allows us to have a predictable base business which, when the markets are strong, we can add on top of them. When the markets are weaker, these don’t fluctuate down anywhere near as much as large capital projects.

On to slide 10. Our backlog remained stable over the last number of years. As you can see at the end of fiscal year 2016 it was only down about 5% from where it was at the end of fiscal 2015 and is higher than where it was in fiscal 2012 and fiscal 2013.

How can our backlog continue to stay at that level, despite the weakness in two of our key end markets? The reason for that is our backlog has changed over time. If you look at our backlog at the end of fiscal 2016, nearly half of it is U.S. Navy orders. Over the last three or four years we've seen that move from the U.S. Navy being a relatively small piece of our backlog, to now being a very large piece of our backlog. That's great news from the standpoint of stability of the backlog.

However, in the near term that doesn't necessarily translate to revenue and the reason it doesn't, is again, the life of these U.S. Navy projects are up to 5 or 6 years from order to shipment. Although we will recognize revenue over a number of years, you still are going to have a large portion of that staying in your backlog for number of years.

If you look at our backlog conversion at bottom left on slide 10, you'll see that only about half of our backlog will convert to revenue over the next 12 months. If you had looked at the same chart four or five or six years ago, that would have been 85% or 90%.

But as we've evolved the business and strengthened that U.S. Navy piece, the length of our backlog has increased pretty significantly. Again, it's solid backlog, and it will execute to revenue, it just takes some time.

Slide 11 shows a little bit more about the backlog. You can see if you go back into some of early years on this chart, we'll call it core historic Graham, the backlog was predominately refining and petrochem. As we've evolved over the last number of years, you see the backlog is now driven by the U.S. Navy and driven by our commercial nuclear strategy.

As the core Graham markets have weakened in the last year or so, the backlog has come down. Obviously, once we see strength in those core markets we would expect that will increase on top of the U.S. Navy and nuclear business that we have. But that, we believe, is going to be some time out.

Moving on to slide 12, you can see that we do have a pretty diverse bidding pipeline. This is a metric that we track, and we've tracked it for a couple of decades. The magnitude of this, is $600 million to $800 million of opportunities that are available. This is actually down; it had been $800 million to about $1 billion. This has come down over the past year or so. But it is level now. And we've got many more opportunities out there than we had in the previous cycles. This has dropped down by about 20% or 25% over the past year, and again, due to the weakness in refining and petrochem sectors.

Please turn to slide 13. Why do people buy from Graham, what's critical about what we do? We have equipment that has a very high cost of failure. What does that mean? It means that if our equipment doesn't work, our customers are not getting the efficiency out of their facilities and they are not making money. Our customers are looking for who can provide this equipment that will execute and will operate as designed, who can engineer it, who can fabricate it and deliver a product that is flawless.

They are focused more on the quality of what they are getting, and less focused on what's the price. Why are they less focused on the price? If you look at the size of our equipment, although its multi-million dollar equipment, I don't want to suggest that's not a lot of money, but it isgoing into facilities that might be $2, $4 or $5 billion size facilities. Our equipment might be one or two tenths of the capital spend of that particular facility. They want the equipment that's going to work.

Please turn to slide 14. Another critical factor that we bring to our customers is how we sell our products. If you look at a new refinery, a new petrochemical plant, from when they decide to build it, to when it starts operating is about a five year window.

Our equipment will go out to bid somewhere 18 to 24 months into that five year window, and then will be delivered once the bid is completed, about 12 months after that.

Our competitors look at this process before the RFQ and they basically wait for the RFQ to come out. We have a different approach. We have, what we call, a consultative selling process. Our sales team which consists of engineers, as well as our internal engineering team, will work with the end user from the concept phase, to the FEED stage, the FEED would be the Front End Engineering Design stage, to the EPC bid, before they even get to a point where they are looking to put an RFQ out.

We're providing them technical assistance. We are helping them design how our equipment will work with their equipment. They are evolving their engineering and so we have to adapt our engineering to the rest of the facility. This is a very iterative process and that value, we believe, we bring from a selling and engineering standpoint prior to the order, we believe, allows us to be more successful in winning opportunities, as well as to maximize our margin. That selling process is a critical value that we bring to our customers and we believe that it helps us win share and ultimately optimize our business.

Now let’s turn to slide 16. Our financial overview looks back at the last five years. I talked early on about our target EBITDA margin of about 17%. You can see that we achieved that over the previous four years, prior to fiscal year 2016.

If you compare that to the industrial markets, you can see that the average EBITDA margin is about half of where we had been over that time period and even that what we consider a very weak year fiscal 2016 we are still above what other industrial businesses have.

Looking at our EPS, you will see that our return on sales most of those years has been 10% or higher. Fiscal year 2016 was a bit of challenge and we're expecting fiscal 2017 to continue that challenge.

Turning to slide 17, we do have a very strong balance sheet. We have $65 million in cash on our balance sheet. We have no bank debt. I am going to show a chart in a couple of minutes; its shows how we got to where we're at from a cash perspective over the past 10 or 11 years.

That $65 million gives us what we consider a lot of dry powder to look at acquisition opportunities, which I am going to talk to in a couple of minutes. Our operating cash flow is quite strong. You see three of those four years was very strong and that fiscal 2015 looks like it was a little bit weaker. Fiscal 2015 was a very strong financial earnings year, what happened there? What happened there, and I talked about that over a number of conference calls, is the timing of payments and the timing of our receivables. At the end of fiscal 2015 we saw a very significant ramp up in receivables. We had expected that would happen to some degree.

I would really look at those two years combined rather than say one was low and one was very high. The reality is that the cash flow from fiscal 2016 was driven by the earnings in fiscal 2015.

Capital expenditures – This is a business that has a lot of fabrication to it, along with engineering work. You would think there would be a lot of capital, but that’s not the case. If you went back over the past six or seven years, a normal year for us would be about $2 million to $3 million worth of capital, fiscal 2013 was little below that, fiscal 2016 was quite a bit below that.

What occurred in 2014 and 2015 was that we did a significant facility expansion, and that expansion was really driven ultimately by our U.S. Navy business. I talked about it a little bit earlier. We needed to increase our capacity, to provide dedicated fabrication capabilities for the U.S. Navy. That project was about $6.5 million.

If you look over fiscal 2014 and 2015 and you see $10.6 million worth of capital; $6.5 of it was the expansion and other $4.1 million was our normal $2 million to $3 million worth of capital per year. I would expect going forward, we would see it be in that $2 million to $3 million range and that's certainly in line with our projection for fiscal 2017.

Our net working capital tends to be around 5% to 10% of sales, a little bit higher obviously at the end of fiscal 2015. If you went back a few years earlier, you would actually see a couple a years of negative working capital, because we received some significant customer deposits.

Our customers in general will fund the larger projects. We will receive cash payments not at the end of the project, but rather throughout the project, perhaps when we deliver engineering drawings or when we're going to pay for raw materials. Then there will be progress payments at certain milestones of the production process.

Our working capital helps to keep our our cash position quite strong, but our working capital management has improved dramatically from the prior to the current management team and we try to target to be in that 5% to 10% of revenue, excluding our cash.

Please move to slide 18. How did we get to have $65 million worth of cash on our balance sheet? If you went back about 10 or 11 years to the end of fiscal year 2005, you would see our net cash position was less than a $1 million, so for all intents and purposes it was zero.

Over that time, we've generated a $112 million worth of net income, and we also added another $18 million worth of D&A, so we generated about $130 million of cash. What happened to that cash over time?

A chunk of it was for capital spending. We spent about $25 million expanding our capacity, as well as replacing our equipment that was in place. You can see we had a little more capital than we had D&A, so that did drag on cash a little bit.

We have repurchased some shares, we repurchased about $13 million worth of shares over that time period, in two chunks. We repurchased about $9.5 million worth of shares last year. Our cash went from $60 million to $65 million, while repurchasing $9.5 million worth of shares and then we also repurchased some shares back in 2009.

We have been increasing our dividend over the past three or four years. It had been at a very low level, at $0.08 a share per year, and we have increased to $0.36 a share. We've increased it by a factor of 4.5 times over the last three years. We think we're now at a good, sustainable level that will be very comfortable in an up-cycle and sustainable in a down-cycle.

We spent $18.5 million to buy our nuclear business energy in 2010. If you look at those last four bars on the slide 18 chart, I think those are the important ones to look at, how we have been inorganically reinvesting in the business and returning funds to shareholders.

That's where our net income has gone. Looking at many companies you will see strong net income but you can never figure out where the cash went. Our cash is either on our balance sheet, been used to grow or it's been returned to shareholders.

Moving to slide 19. Our capital allocation priorities are important and we look at capital two ways: the operating cash flow that occurs here and then we look at the excess cash our balance sheet. On the operating cash flow, we have a couple of key areas to focus on.

First and foremost is our organic business, whether its growth or its reinvestment in the business, which is really that $2 million or $3 million worth of annual capital spend that I talked about previously.

Now if you think about it, we have spent $2 million or $3 million worth of capital and our D&A is about $2.5 million a year. Those two pretty much wash out. From a cash perspective those two are pretty equal.

We do pay about $3.5 million per year in dividends and we expect to continue to pay dividends at that level. This is a business that historically has generated more cash than that. We expect as we continue to do that, we will add to what's on our balance sheet.

What are we going to do with what's on our balance sheet? Acquisitions are at the top of our list of priorities. That's the most important thing we are looking at, finding that right acquisition opportunity. I am going to talk about that in a couple of slides. We are looking to grow inorganically, as well as grow organically.

As noted on slide 20, we have a stock repurchase program in place. We spent about $9.5 million to buy stock back in fiscal 2016. It was authorized for up to $18 million; that doesn't mean we have to spend $18 million. That is what is available to us to buyback shares.

But very importantly, we're not going to buy back shares if at all we feel that impedes progress on our acquisition strategy. The acquisition strategy is more important to us than buying back shares.

I talked about the fact that we have increased our dividend from $0.08 per year to $0.36 per year over the past four years. We're at a very comfortable level. We returned nearly $13 million to shareholders over the past fiscal year.

As we were entering the market that was a bit weaker, we knew we had strong cash flow, and we decided to use some of it, return it to shareholders. We're going to continue to keep our balance sheet strong, actually we added to that cash position. We believe we're in a very good position there.

We've also seen an evolution in our institutional ownership. I want to compliment our partners, Kei Advisors. Our institutional ownership, if you went back a couple of years even prior 2007, it was 10%, 15%. It grew from 36% to 63% and the last couple years it has been between 75% and 80% pretty consistently.

We think it's important that we have shareholders who we can spend time talking to, we can educate about our business and we can get some feedback from what they are looking it and it can provide some level of stability.

In a time like this where the energy market has gone out of favor, we've had a little more stability than I think a lot of other companies in the energy markets.

Our shareholders understand where we're at, understand our diversification strategy and understand that while energy might be in a little bit of rough spot now, the long-term demand will be there for energy investment.

Moving to slide 21, I want to finish up talking about our acquisition strategy. What are we looking to do? Well, Graham is a company that sells engineered-to-order products for the energy markets. We want to buy another company to add to our portfolio.

We don't want to go and buy a company that sells highly engineered standard products. There are alot of companies that do that well. We don't believe we would do that as well as others, so that would not provide a strategic advantage.

We want a company with a strong management team and a customer and quality focus—that's critical to us. We don't have a lot of extra capacity in our management team. We are going to buy a company with a management team that wants to stay in place, that runs their business well today and Graham can bring something that's helping, hopefully they can bring something to us also.

Our target size range is $20 million to $60 million worth of revenue. What does that turn into from a cost or cash standpoint? If we are going to buy a company that's operating pretty well, we're probably looking for a company with low double-digit EBITDA margins at least, maybe higher than that, but certainly low double-digit EBITDA margin is probably a threshold for us.

If you think you are paying seven, eight times EBITDA, you are probably paying somewhere in the neighborhood of dollar per dollar of revenue. Would we pay more? Yes, if we found somebody with 15%, 16%, 17% EBITDA margins we will pay more than dollar for dollar revenue absolutely. We're not paying for revenue, we're paying for earnings.

A lot of companies in today's environment look and say, they want something that's accretive. We look at that as an extremely low threshold. We've got $65 million worth of cash. It's invested in CDs and treasury notes and in money market accounts, all of which are earning maybe 100 basis points on a really good day, but probably less than that. Our threshold is to look at the cash that we've put out and get a cash-on-cash return that exceeds our cost of capital.

How do we define our cost of capital? Again, I am not defining it based on that low return that we're currently getting. We're looking at it from an equity standpoint. We believe if we get a double-digit cash return and we manage the balance sheet of that acquisition appropriately, like we manage our balance sheet, the income will be there and the accretion will be there.

Far too many companies look at it backwards, in my perspective. They try to generate the earnings and they don't worry about the cash and we think that that's incorrect, and that's not how we're going to go about it.

We have strong pricing discipline. We've had cash on our balance sheet for a quite a while. I said we're going to do something when we find that right company. We're not simply going to make an acquisition so we can check the box, be a hero for one day and then have to live with the pain somewhere down the line. We want a company that we're happy with on day one, we're happy on day 365 and we're happy with five years later and longer than that.

Let's move on to slide 22. Our guidance for fiscal 2017, that started back in April, is $80 million to $95 million of revenue, so that compares to the $90 million for the year that we just finished up. It's a challenging year and that guidance is really driven off of what's in our backlog right now. Backlog is strong, but as I mentioned before, but alot of it is U.S. Navy business which won't be converting a significant amount this year.

Our gross margin guidance level is a little off of where we normally see, its 24% to 26%, SG&A is at $17.5 million - $18.5 million and we are certainly are full taxpayer, expecting a 32% to 33% effective tax rate.

Again we're still targeting that $200 million in organic revenue and we believe the U.S. Navy will start to kick in fiscal 2018. The power business is going to see some growth this year, as well as in 2018 and beyond. As we start to see recoveries in our core markets, we think we can be well on the path to that $200 million level, at significantly improved profitability levels.

As noted on slide 23, I have several investment highlights, which I am not going to read through, as I think I have talked to many of them over the last half hour. What I'd like to do is open the floor to any questions.

<Q>: Being from Buffalo, I realize Batavia is a very nice city, but a little on the smaller side. I see you added quite a few welders, do you have a hard time attracting employees to a smaller city, compared with a larger city?

Jeffrey Glajch: Actually being in a smaller city can be a benefit in a way. A lot of the folks that we hire do not have the welding capability to begin with, and we will train them in-house.

We have a weld lab in-house, with a very strong leader there who can teach welding in a way we need because it's a little different than a simple welding shop.

We also have relationships with programs, such as the BOCES program and the WyoTech program within the county to develop welders. If you look at our employee base, you will see we have a very long-tenured employee base.

If you look at them what you'll see is many of them are the first or second generation off of the farm. They were in the farming communities and so when they come in here, they have a very strong work ethic and we're able to use our internal capabilities to help train and develop them.

While that can be a challenge, we actually find that we've been pretty aggressive in our HR policies and branding Graham in the local community. We believe we are an employer of choice and people want to come to Graham and we can help train and develop them.

<Q>: Can you talk a little bit about the restructuring charge from last year?

Jeffrey Glajch: Sure. In March of 2015 we had a restructuring charge which, after taxes, was about $1.1 million. As we looked at what was occurring in our markets, we recognized we needed to take some costs out. What we chose to do at the time was to offer a voluntary separation program to individuals who were getting near retirement.

The vast majority of that charge, almost all the cost and more than 80% of the people were early retirees. Most were folks between 60 to 65 years old. We had a couple of folks who were in their high 60s and early 70s who were retiring, who we knew were going to retire over the next two to three years and we felt well, I'd rather give them a little bit of a benefit in that situation if they are going to retire in a couple of years. I'd rather do that than take someone out who perhaps is very early in their career, who is developing.

That was very well received by our employees, because they looked at it as a more humane way to go through the restructuring and those retirees were also very appreciative of the fact that we allowed them to get a little bit of a financial windfall as they were retiring. That's really what that was.

<Q>: Looking at your backlog, which direction is it going, in terms of LNG or crude refining?

Jeffrey Glajch: We actually don't play in the LNG market, so there is not much there. On the refining and the petrochem side, the backlog has been getting smaller over the past year. We continue to work through some of the projects that we won 12 to 18 months ago, but unfortunately what is replacing them is not replacing them in time.

What we have seen though, is that our power backlog has been increasing and our U.S. Navy backlog has been increasing through fiscal 2016 at a relatively steady pace. We saw a huge step-up in our U.S. Navy backlog in fiscal 2015 when we won a very large project. About two thirds of our current U.S. Navy backlog today is a project that we won in the last quarter of fiscal 2015.

We expect the U.S. Navy opportunities to continue to be there. I mentioned the carrier project that's out for bid now, if we are successful there, and we feel confident that we can be, that would grow our U.S. Navy backlog in this fiscal year. We expect that project to be awarded sometime in this fiscal year.

Jeffrey Glajch: I think we're out of time. Thank you very much for your time.