TechPrecision Corporation
Second Quarter Fiscal 2012 Earnings Conference Call
November 14, 2011

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the TechPrecision Corporation's second quarter fiscal 2012 earnings conference call. During today's presentation all parties will be placed in a listen-only mode. Following the presentation the conference will be opened for questions. If you have a question, please press the star, followed by the one on your touch-tone phone. If you wish to withdraw your question please press the star, followed by the two, and if you're using speaker equipment please lift your handset before making your selection. This conference is being recorded today, Monday, November 14th, 2011.

I would now like to turn the conference over to Brett Maas of Hayden IR. Please go ahead sir.

Brett Maas: Thank you, welcome everyone joining us. On the call with us today are James Molinaro, TechPrecision's Chief Executive Officer, and Rich Fitzgerald, Chief Financial Officer.

Before we begin, may I remind our listeners that this is the call that management's current remarks contain forward-looking statements which are subject to risks and uncertainties and management may make additional forward-looking statements in response to your question. Therefore, the company claims the protection of the Safe Harbor for forward-looking statements as contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today and therefore we refer you to a more a detailed discussion of risks and uncertainties in the Company's filings with the Securities and Exchange Commission. In addition, any projections as to the company's future performance represent management's estimates as of today, November 14th, 2011. TechPrecision Corporation assumes no obligation to revise or update these forward-looking statements.

I'd like to now turn the call over to Mr. Jim Molinaro, TechPrecision's CEO, to provide opening remarks.

James Molinaro: Thank you Brett, good day everyone, and thank you for joining us. This was an important quarter for us, one that featured continued progress in our efforts to diversify our customer base and our industry exposure, and one that also included the initial volume production at our Wuxi Critical Mechanical Components Company, or WCMC, subsidiary in China. Unfortunately this progress was impacted by a customer-requested delivery delay that shifted $3.4 million in revenue into the third quarter. While this event is incredibly frustrating, it does not dampen my confidence that we're on the right path and that we are in fact a stronger company today than when I joined the company as CEO.

Revenues were $7.0 million compared sequentially or $9.2 million in the first quarter of fiscal 2012, and $8.4 million in second quarter fiscal 2011. Second quarter fiscal 2012 results included $2.5 million in increased sales to commercial industrial customers and $0.7 million in higher sales in the nuclear sector when compared to the second quarter fiscal 2011. As I mentioned, during the second quarter fiscal 2012, $3.4 million of production was qualified and accepted by our largest customer, but was not recognized until third quarter due to a customer requested delivery delay.

The $3.4 million in production included $1.2 million in initial volume production from our WCMC subsidiary. The $1.2 million of WCMC related revenue was recognized, with payments, collected early in the third quarter of fiscal 2012. I would mention that had this revenue been recognized within the second quarter, I would be telling you that the CMC division accounted for 11 percent of revenues and we would have reported total second quarter revenues of over $10.5 million along with positive net income. We expect the full $3.4 million to contribute incrementally to the fiscal third quarter results. I'd like to further add that much of the situation was related to a very unique set of circumstances from our customer and one we are working very closely with the customer to prevent from repeating in the future.

What is important, however, is that our WCMC subsidiary is now producing product at volumes for customers in Asia. We currently expect WCMC to contribute more that 20 percent of our third quarter revenue as this ramp continues.

Another important point I'd like to stress on this call is that despite what you might have read on the solar industry being in a cyclical downturn, this has been more of an issue for the United States compared to the Asian markets. Solar remains very strong for us, and while others in the industry are sure to feel the pinch, we are strategically well positioned with our WCMC operation. The solar industry is transitioning from lower cost multicrystalline to monocrystalline technology such as monocast, as well as adding sapphire capability and our CMC division is uniquely positioned to provide these services in China and other Asian countries. We've added a second customer for multicrystalline solar chambers, two new customers for monocrystalline solar chambers, and a third sapphire LED customer, which was announced earlier today. All of this new business is expected to contribute to our second half fiscal 2012 revenues. This demonstrated progress in diversifying our solar and sapphire manufacturing business provides me with confidence that we will continue to grow in both sectors.

As we continue to ramp WCMC, we have been redeploying production at our Ranor subsidiary in Massachusetts, and expanding our customer base and physical capacity. Approximately 50 percent of Ranor's historical base revenues have shifted to China, and the key goal for management is to replace this revenue as quickly as possible with predictable and profitable business. This will take some time but we are excited about the possible opportunities and the progress we have already made. Initially this involves prototyping or first article work for our new commercial industrial gas customer, defense customers, and new sapphire customer, that we hope will evolve to production volume orders in the second half of fiscal 2012 and full year fiscal 2013.

Our backlog was $29.9 million at the end of the quarter compared with a backlog of $25.2 million at June 30, 2011, and $26.4 million at September 30, 2010. With the expanding customer base for WCMC and Ranor, we look forward to continued backlog growth through the balance of fiscal 2012 and into fiscal 2013.

As I've consistently stated, one of my major concerns when joining TechPrecision over a year ago was the concentration of our largest customer which made up more than 50 percent of our quarterly revenues. This has been a wonderful relationship and great opportunity for us, but this level of customer concentration posed very high exposure and risk to our company, particularly as our customer changed its product focus and strategy away from the US market towards China. As I expressed to the shareholder base last year, one of our strategic imperatives was to minimize this customer concentration and dependency and we are succeeding with the addition of five new solar and sapphire product lines in the last nine months.

Our new strategic business development and sales process created four strategic Tier-1 customers in fiscal 2011 and will support our fiscal 2012 strategic imperative to add three additional Tier-1 customers. As clarification for what we mean by a Tier-1 customer, this is a customer with annual revenues north of a half a billion dollars and having global requirements which can benefit from our WCMC and Ranor global operations.

We've also bolstered our position in other sectors including nuclear and defense. The nuclear industry in particular is an opportunity for us and specifically our Ranor subsidiary. I believe TechPrecision is a stronger company. I'm confident we can continue to build on these successes as we move forward.

With that I would like to turn the call over to Rich Fitzgerald, our CFO, for the review of our financial results for the Fiscal Second Quarter of fiscal 2012. Rich?

Richard Fitzgerald: Thank you, Jim. For the three months ended September 30th, 2011, revenue was $7.1 million compared sequentially to $9.2 million in our first fiscal quarter of 2012. This also compares with $8.4 million in the same three month period of fiscal 2011, one year ago. As Jim mentioned, the primary reason for the sequential and year-over-year decrease in revenue was $3.4 million of second quarter production that was qualified and accepted by our customer, but for which revenue recognition events occurred and delivery in early October. As a result this revenue was not recognized in the second fiscal quarter and will now be recognized in the third quarter of fiscal 2012.

Net sales to TechPrecision's largest customer, GT Advanced Technologies, were 200,000, or $0.2 million, for the second quarter ended September 30, 2011. This compares sequentially to $4.4 million in the first quarter of fiscal 2012, and $4.1 million for the same quarterly period one year ago. Again, the primary driver for the lower sales volume in the current quarter is the previously referenced $3.4 million of second quarter production now recognized as revenue and delivered in October of 2011. This was due to customer-requested delivery delays.

Within the second quarter of fiscal 2012, reported revenue or sales to the defense and aerospace sector, increased $400,000, or $0.4 million, over the prior year, while sales to the nuclear power sector increased by $0.7 million or $700,000, and sales to our commercial industrial customers increased by $2.4 million when compared to the same second quarter one year ago.

Gross profit for the quarter ended September 30, 2011, was 27 percent, compared sequentially with 26 percent in gross margin for the first quarter of fiscal 2012, and 31 percent for the second fiscal quarter last year. Gross profit declined, primarily related to $0.3 million in contract losses and higher costs associated with prototype and first article work for the new commercial industrial gas customer, and defense projects at our Ranor facility in the U.S., when compared to the prior quarter a year ago.

Operating expenses for the second fiscal quarter increased by $2 million from $1.7 million sequentially over the company's first quarter of 2012. This compares to $1.1 million of operating expenses for the year-ago quarter ended September 30, 2010, reflecting an increase of $0.8 million, or 74 percent. The majority of the year-over-year increase was attributed to higher staffing levels and payroll related costs of $0.3 million in the U.S. and $0.2 million in China. Additionally, (audio interference) $0.2 million of higher travel related costs, as well as $0.1 million in increased non-cash, share-based compensation charges when compared to the same second quarter one year ago.

Net loss for the quarter ended September 30th, 2011, was $88,000, or one cent per share, basic and fully diluted, based on 16.5 million shares basic and fully diluted weighted average shares outstanding. Due to the loss position in the second quarter, all common stock equivalents were deemed antidilutive for the quarter ended September 30, 2011. This compares sequentially to $0.4 million, or $0.02 per share basic and $0.01 per share diluted, reported in the first quarter of fiscal 2012. For the year-ago second quarter, net income was $0.8 million or $0.06 per share basic and $0.04 per share fully diluted based on then 14.2 million shares basic outstanding and 20.6 million fully diluted for the prior year.

Turning to backlog, as Jim indicated, we concluded the quarter with $29.9 million in backlog. This is up $4.2 million from $25.2 million at the end of June 30, 2011, the end of our first fiscal quarter 2012, and up $3.6 million from $26.4 million as of September 30, 2012, the end of second quarter last year. Included in this backlog at the end of September 30, 2011, was the earlier referenced $3.4 million of second quarter solar production, delivered and recognized as revenue in October, 2011.

Moving on to year-to-date financials, for the six months ended September 30, 2011, revenue increased 12 percent, or $1.8 million, to $16.3 million from $14.5 million in the same six month period of fiscal 2011, one year ago. Gross margin for the six months ended September 30, 2011, was 27 percent, or $4.3 million in gross profit, compared to gross margin of 34 percent, or $4.9 million gross profit, in the same six month period a year ago.

Cost of goods sold during the first six months of fiscal 2012 includes $1.4 million of additional material costs. As our margin on material procurement services is generally lower than the margins we garner on production services, this shift in sales mix during the time period lowered reported gross margin compared to the same period a year ago. Additionally the $0.3 million in contract losses and heavier volume of prototype and first article production also dampened margins when compared to the year-ago period.

Operating expenses for the six months ended September 30, 2011, increased to $3.7 million from $2.1 million for the six month period ended September 30, 2010, reflecting an increase of $1.6 million, or 72 percent. Primary drivers of this increase were higher staffing levels and payroll related costs of $0.8 million in the U.S. and $0.3 million in China, to support our China expansion, and increased marketing and business development activities throughout the organization. Travel related expense also increased by $0.2 million compared to the comparable six month period in the prior year. And non-cash share based compensation increased by $0.2 million when compared to the same six month period a year ago.

As a result, net income for the six month period ended September 30, 2011, was $329,000, or $0.02 per share basic and $0.01 per share fully diluted, based on 16 million basic shares and 24.1 million fully diluted weighted average shares outstanding respectively.

For the year-ago six month period, net income was $l.7 million or $0.12 per share basic and $0.08 per share fully diluted., based on 14.2 million basic shares and 20.8 million fully diluted weighted average shares outstanding a year ago.

At September 30, 2011, TechPrecision had $5.2 million in cash and cash equivalent, and net working capital of $12.5 million, as compared to net working capital of $13.6 million as of March 31, 2011, a decrease of $1 million. Cash used by operations was $1 million as compared to cash provided by operations of $1.1 million in the year-ago six month period. Cash flows from operations were impacted by a decrease in net income of $1.4 million when compared to the same six month period a year ago.

Since March 31, 2011, the company has used approximately $1.3 million in cash to support operating activities and the expansion in China. This includes $0.5 million for advances to suppliers and $0.5 million for inventory purposes. We invested $2.3 million in the previously announced plant expansion and new equipment for our Westminster Massachusetts facility during the six month period ended September 30, 2011. The 19,500 square foot addition was completed and placed into service in September 2011, and the previously announced $2.3 million gantry mill was installed late in the second quarter and will be formally commissioned and placed into service early in the third quarter of the current fiscal year. Both the Gantry Mill and the plant expansion were fully financed by the December 2010 bond financing we completed with Sovereign Bank and the Massachusetts (inaudible) authority last year.

Turning quickly to long-term debt, total debt outstanding increased by $0.9 million to $7.5 million as of September 30, 2011, from a base of $6.6 million as of March 31, 2011.

With that brief financial synopsis, I'd now like to turn it back over to Jim for some additional remarks. Jim?

James Molinaro: Thanks, Rich. During our second fiscal quarter the WCMC division received a purchase order from a new European Tier-1 customer to produce high-temperature vacuum chambers using advanced monocrystalline cast technology. Initial units from the purchase order will ship from WCMC division in China during the third quarter fiscal 2012. The monocast process is a leading edge technology that competes against conventional CZ methods. The production of high temp monocast technology is a new technology for our portfolio to support the solar sector. We envision monocast as having the ability to provide lower cost mono wafers to the solar market, and are pleased to be part of this accelerating trend with our CMC division

Subsequent to our quarter end we announced an order for high temperature precision vacuum chambers from the second sapphire customer and today announced our third. Initial units of the second and third customer are expected to ship from the CMC and Ranor divisions by February 2012 to qualify for production. Ultimately high volume production units are currently scheduled to begin shipping in May 2012. We continue to diversity our customer base to expand our (inaudible) cleantech penetration. We're excited about the additional sapphire and solar customers as more and more customers now recognize TechPrecision's proven ability to fulfill their global requirements.

While the solar and LED industry appears weaker in the United States and Europe, new initiatives in China continue to support growth in both segments. China has now adopted legislation to ban incandescent light bulbs of 15 watts and greater, strengthening demand for LED light sources. In addition, China is reviewing adoption of new legislation as part of their twelfth five year plan for an additional domestic solar installation of 15 gigawatts. We believe both actions by the government will support continued growth in the solar and LED sectors, and our WCMC subsidiary is ideally situated both geographically and strategically to meet this continued demand.

Regarding the business outlook and guidance we expect revenues for Q3 fiscal 2012 to be in the range of $12.5 to $14.5 million, inclusive of the $3.4 million of revenue which shifted from the second fiscal quarter into the third fiscal quarter. Our only caution is a shiftable large single order in the subsequent quarter may negatively impact actual results. As the company continues to increase its revenues, a single order event will be less impactful to the quarter and financial results. As previously stated, we're expecting the WCMC division to contribute approximately 20 percent of our consolidated revenues.

I want to thank all our global employees for their continued hard work and our customers for their confidence in our capabilities. I also want to thank our Board of Directors for their continued excellent guidance and our shareholders for their support.

With that, I will turn the call over to the Operator for the Q&A session. Operator?

Operator: Thank you, sir. We will now begin the question and answer session. As a reminder, if you have a question, please press the star, followed by the one, on your touch-tone phone. If you'd like to withdraw your question, please press the star, followed by the two. If you are using speaker equipment, you will need to lift your handset before making your selection. Once again, if there are any questions at this time, please press the star followed by the one.

Our first question comes from the line of Theodore O'Neill with Wunderlich Securities; please go ahead.

Theodore O'Neill: Thank you. Jim, you talked in your prepared remarks about a unique reason why there was a push out from your large customer, and that you're working to make sure this doesn't happen again. I was wondering, without giving away too much, can you talk conceptually about what that means and how it is that you could prevent it from happening again?

James Molinaro: We have contracts with this customer and we value our relationship with this customer. The customer is in the process of transitioning a lot of their operations and infrastructure from the U.S. operations to China operations. There were some issues within their own processes in the transition from U.S. to China which forced the delivery delay from a Q2 to a Q3 event. It wasn't the plan, it was the result, and we are working closely with them that they understand what the impact of the result is and are correcting it so it doesn't happen again, and they're very amenable to working with us to make sure it doesn't repeat. But it's pretty much a system that they've systemically transferred a lot of their processes and operating from procedures from the US to China and had a couple bumps in their road, but they're working through it.

Theodore O'Neill: Okay, and you mentioned, so you've got a third sapphire customer and the question is, now how many potential sapphire equipment makers are there out there?

James Molinaro: I hope not many. This is as I mentioned for the third one, this one supports our domestic operation because it's a domestic customer, and for a good reason they're going to keep it domestic and it supports our Ranor division to keep it domestic. As far as opportunity for—Theo, just to back up, was your question how many customer opportunities are there or how many competitors do we have or both?

Theodore O'Neill: How many customer opportunities are there?

James Molinaro: Well, there's really two in the U.S., but China is becoming a lot, every day we wake up there's another China company primarily in the solar market who said, hey we want to diversify and get into sapphire. I mean if you have an infrastructure making multicrystalline and monocrystalline wafers it's not a big stretch of the imagination to start making sapphire, and certainly to diversify as well, so we're seeing several—many companies in China starting with sapphire. I also think it's supported with what GT Advanced

Technologies announcement, their billion dollar backlog in sapphire, so that would mean there's quite a few wanting to get into the business in China.

Theodore O'Neill: Okay, thank you.

James Molinaro: Mm-hmm.

Richard Fitzgerald: Thanks Theo.

Operator: Thank you, and our next question comes from the line of Kevin Wood with Baron Partners. Please go ahead.

Pardon me, Mr. Wood, your line is open at this time. If you're using speaker equipment, please pick up your handset.

Kevin Wood: Sorry about that, just had a brief interruption. My question relates also to the delay, the shift of that single order as well as your guidance for the current quarter. It's nice to see that you're comfortable putting some numbers out there for this quarter. I guess there's two questions really, one is, having put that out there for the third quarter, can you give us a sense of where you think the fourth quarter and the whole year will be, and secondly, those numbers would seem to indicate that you're not expecting other business particularly to slip from the third quarter into the fourth quarter, but you do sort of caution about that and—I'm trying to get a handle on whether this delay really is all going to be caught up in the current quarter and then its full speed ahead with growth along the same trajectory or whether really everything is pushed back by whatever part of a quarter, part of a month.

James Molinaro: Okay, great question, and several parts of the question. I took notes so let me take it the order I think I heard it. First of all, this is the first quarter we gave guidance, but we will give this guidance and give guidance at least for the next quarter for every earnings release, and Rich and his team have put in place the financial systems and staff to give us the comfort level providing guidance so we're happy to provide guidance this first time and continue this guidance.

As far as for the year goes, we only give it for the third quarter, I understand. What I've told shareholders before, is that two years ago there was a two in front of the number, last year there was a three in front of our number. My goal is to make sure there's a four in front of our number for the year end. We are still very confident to achieve that goal. Nothing of the Q2—and this kind of leads into your next question—nothing in the Q2 or the customer shipment delay, which was a systemic issue, impacts that we can hit that four in front of the number, I'm still very confident about that. As far as the slipping goes, this was a system event from our customer moving their operations from the U.S. to China. We believe we have resolved this clearly with the customer so that it can be business as usual and ramp as usual for our fiscal Q3 and fiscal Q4. The customer is aware of what happened, has apologized for what happened, and now we move forward. We have a very good relationship with this customer, for many reasons.

As far as the guidance statement went, as a company that would ship in this case if we added the $3.4 it would be about $10.5 and then we said, okay we have a guidance of $12.5, $14.5 of that included, when you have capital projects that may be in the $0.5 million dollars or $2 million dollar range, one order and one shipment delay of an order of that magnitude can sway the quarter. And so I just put a cautionary note in the statement that looks at a range of doing $10 to $12 to $13 million a quarter, one $2 million order can really shake things up. As we get bigger and bigger and bigger, it will be less impactful. We don't foresee any of that happening but just remember, the ASPs in some of our products get pretty big, and we need to make sure we can deliver, but if they don't deliver it could shift a million dollars, it could shift a half a million dollars. That's not our plan but that's possible at our current rates.

Kevin Wood: Right, right.

James Molinaro: I think that covered your points

Kevin Wood: Yes, I think it did pretty well. I know that one of your objectives is to remove the so-called lumpiness from your results, and the fact that you have certain large customers with large orders is undoubtedly making that not quite as easily done as talked about. But I can see there's progress in a lot of directions there.

That was really it for me for this one, thanks for addressing that in detail.

James Molinaro: Okay, and thank you, and if you have noticed, we've forbidden Rich from ever saying 'lumpy' on this call so it worked out great. Thank you for pointing that out.

Kevin Wood: Okay, well I'm not forbidden, I'm not covered by that so—

James Molinaro: No, you're not, you're not under that provision.

Operator: Thank you. And now as a reminder, ladies and gentlemen, if there are any additional questions please press the star followed by the one, and as a reminder, if you're using speaker equipment it will be necessary to pick up your handset before pressing the star key.

Our next question comes from the line of Greg Garner from Singular Research. Please go ahead.

Greg Garner: Thank you, thank you for taking my question. Another question about the $3.4 million that was delayed, I just wanted to get a sense for what the costs were incurred during the quarter for that, is it safe to look at in your balance sheet the line item cost for uncompleted contract, went up, oh—$2.2 million from first quarter to second quarter—is it safe to assume that that increase was for that $3.4 million order for your large customer?

Richard Fitzgerald: Greg, we're always very cautious not to disclose customer margins or anything other than revenues and receivables.

Greg Garner: Okay.

James Molinaro: Clearly you can see a bump up; I would not tell you that—that is part of the impact, it's not all of the impact.

Greg Garner: Well, what I was trying to get at, okay, I appreciate that — was if I was…

Richard Fitzgerald: It's really part of the impact, is the answer, but it's not the sole impact, we've got other dynamics that cause a build there as well.

Greg Garner: Okay, so the growth margin from that delay, I guess, is still in the range of the target growth margin which was' I think 30 to low 30s, in that range? That's what I 'm trying to get at.

Richard Fitzgerald: That's clearly our target range, Greg. These are in many ways—we've got the first articles from China in there so we've got some expedited materials. So they'll be south of 30, and our challenge as we get to production volumes over there for all the product lines is to migrate them north of 30 through efficiencies, so again early production is in that balance sheet so we'll have something south of 30 that comes through for the third quarter when we get a chance to recognize that.

Greg Garner: And that would also include some of the new sapphire orders too? Below 30?

James Molinaro: We do have some early first article prototyping of sapphire out of WCMC and we may, depending on timing, have some out of Ranor Q3 or early Q4, depending on the timing

Richard Fitzgerald: Ranor will be Q4.

James Molinaro: Ranor will be Q4. That gives a February date as the target.

Greg Garner: Okay, so it really seems (cross talking) Go ahead.

James Molinaro: We're always happy to have prototypes, the goal is to get the production on the other side.

Greg Garner: Oh sure, yes. But as the LED ramps up, it really seems like the ramp up is going to happen in beginning in fiscal 2013, after the March quarter.

James Molinaro: Yes, that's correct, I think in my prepared statement I said something like the production lines start in the April-May timeframe which would be Q1 fiscal 2013.

Greg Garner: But there's that first sapphire order customer that may start ramping up a little bit before that?

James Molinaro: If their factory is finished, yes. We're waiting for their factory to be finished.

Greg Garner: That is a Chinese customer, right?

James Molinaro: Yes. We have two China sapphire customers and one U.S. sapphire customer, yes.

Greg Garner: Okay. I just wanted to make sure I was looking at this properly. And is there any update on Still River, is a medical client, is that still on target to potentially to have initial product delivery in, I guess that would be your fourth quarter?

James Molinaro: Yes. The company is now called Mevion Systems, so we all have to get used to the new name, it's no longer Still River, it's called Mevion. Mevion had a big splash along with the Siteman Cancer Treatment Center over the last couple weeks, where the first real production system has now shipped and is being installed. You can check both the Mevion websites and also the Siteman Cancer website. Siteman Cancer as of Monday said that they hope to start patient treatment before the end of calendar 2012. So it still has a little bit to—the good news is it's a huge milestone, right, that it's finally shipped to the field. And there was an article written by Siteman where originally it was cited that the unit was going to be shipped in 2008 and doing patient treatment in 2009 so this is a really big milestone that they got to here; it still has to be properly qualified in the field and of course 510(k) approved, and of course start patient treatment. So, a big milestone, but a ways to go yet.

Greg Garner: Okay, so that's not immanent in the next couple of quarters then?

James Molinaro: I don't think so, if they are—if Siteman, the customer is publicly saying patient treatment by the end of 2012 I would think it unlikely.

Richard Fitzgerald: The only opportunity for acceleration there, Greg, is if the remainder of Mevion's backlog feels comfortable enough that Siteman and Mevion are going to achieve the 510(k) and they prebuild ahead of 510(k). That's always possible, and the two of them made a fairly big splash at the big ASTRO conference in October and that's when the name change to Mevion took place and they positioned and postured themselves as a clinical company, no longer a R&D company but a company with a product tracking toward clinical clearance and marketing. So all the PR we see from Siteman and Mevion would be positive but this is a very tricky piece of machinery and they've got the sticky work of getting it clinically validated and cleared by the FDA. They both seem very much bold in the press that they're going to get it done.

Greg Garner: And they really don't believe that's going to happen until towards the end of the calendar year 2012, it sounds like.

Richard Fitzgerald: That's what they put in writing

Richard Fitzgerald: And again that's Siteman, so they may be citing something that's downstream of the 510(k) approval or that's in front of or commensurate with. But that's the timing we see in their most recent press.

Greg Garner: Okay, and can you give us any more color on the commercial product? You mentioned some costs there for the prototype. Is that still on target for—I believe it would be about a year from now for the initial product?

James Molinaro: Yes, the site where this is going and prepped, the energy site where it's going is prepped, and I believe the target acceptance date for factory acceptance is December 15th, and then it leaves on a really big truck for Louisiana. So we're very excited to get that unit in the field and get it running in production. Should hook up pretty quick.

Greg Garner: (cross talking) You can move that first unit on a truck?

James Molinaro: What's that?

Greg Garner: You can move that first unit on a truck?

James Molinaro: The truck has 80 wheels, yes, but it's a truck.

Greg Garner: Okay. Can you report at all on your progress for locating a facility to manufacture this product? There's always been an issue about having water access. (Cross talking).

James Molinaro: We have narrowed the site selection down to two sites, presented the preliminary information to the Board as to the two sites we would like; both state and local have been giving us their final concessions and financial support to open up the sites. And now with the quarter behind us, our next thing is to put together a full financial presentation to the Board and select one of these sites, as two of our very large strategics would like to get moving and we're going to need the site to be decided very soon. The site has to be decided before the end of this fiscal year.

Greg Garner: This fiscal year.

James Molinaro: This fiscal year.

Greg Garner: So by the end of March.

James Molinaro: Yes.

Greg Garner: So why do you say that—just to set a time frame for delivery of the initial product's been…

James Molinaro: We have received the timeline from the customers as to when they would like steel to start cutting at this site and it happens to be the month of April, so we obviously have to make a decision and get the staff moving for this location by that period of time.

Greg Garner: So if you're starting to cut steel in April that means product delivery the quarter after that? Like your second…

James Molinaro: The cycle time is within 12 weeks after we cut steel, first product will ship. This is something we've produced already, just it's much bigger, and we can start cranking this out pretty quick.

Richard Fitzgerald: (cross talking) If we don’t start with the industrial gas product—that comes later (Cross talking).

James Molinaro: So the seed comes later

Richard Fitzgerald: Yes, the seed product line comes pretty quick.

James Molinaro: The seed project is something that's got a shorter fuse on it.

Greg Garner: Okay. And the seed project meaning this is like prototype number two?

James Molinaro: No it's a defense project for something we've made before, now it's just much bigger, and they need it to get started in April

Greg Garner: Oh I see, okay. But then the commercial product timeline would be—well first of all it would be coming out of this facility, I'm just wondering what's the estimated timeline, in about a year from now?

James Molinaro: That would take at least six to nine months before the first article would come out. They're ginormous. We might start working on it in June but it's very, very large, it would be six to nine months to build just one.

Greg Garner: But you get paid on…

James Molinaro: We do have percentage of completion, that is correct, so you would see some revenues probably within a quarter or two after the start.

I can tell you from the business development front, there are a lot of developments going on at the same time for people wanting us to get a deep water facility up and running for large scale in the defense, in the commercial industrial, in the wind turbine, and in the nuclear sectors. There is a lot. The number of companies that produce, machine and fabricate (audio interference) product we do with the certifications we do are few and far between in the United States. And there are many things on the business development front for this facility that would warrant it. I just want it to start generating cash and revenue as fast as possible so we have to make the right decision, which one and how fast and which sector works best.

Greg Garner: Okay. Good luck on selecting the best location.

James Molinaro: Thank you.

Greg Garner: And thank you very much.

Richard Fitzgerald: Thanks Greg.

Operator: Thank you. Our next question comes from the line of Peter Trapp with Bifrost Partners. Please go ahead.

Peter Trapp: Yes. Hi, Jim. Can you hear me?

James Molinaro: Yes I can.

Peter Trapp: As you are now in the process of putting out forward guidance for revenues, I'm wondering if you could maybe just go through on the backlog, what part of the backlog is deliverable in your opinion in six months, nine months, a year, more than a year, just to get a flavor of how this backlog is structured in your opinion.

James Molinaro: Yes, Peter, that's a good question, and we've been asked before—can we forecast that backlog. I would say the bulk of it, six to nine months, some of it does go out beyond 12, on some of our defense programs we get that far out, but the majority—I think we disclosed this in the Q and the K—the majority of our backlog is usually the forward 12 months with maybe 20 to 10 percent of it at any point in time going out beyond 12 months. Again, the sensitivity to forecasting that is, we are constantly rebalancing that backlog. Customers ask us to expedite shipments, some ask us to push them out for various reasons in their own supply chain. So it is ebb and flow and one of the arts is rebalancing it. Now, with CMC we get pretty straight visibility. With Ranor and the mix of sectors it serves, things can shift around. So the risk of providing guidance on the backlog is always subject to change, and it is fairly dynamic in the way we balance our load and expedite or defer if the need be from various customers. Is that helpful?

Richard Fitzgerald: Order of magnitude, most of its coming in, in 12 months, and a lot of it six to nine months forward. And that's our challenge on the BD front to make sure Jim and the BD team can keep filling that further out, right?

Peter Trapp: Yes. I guess the other thing, I was just kind of curious, when you look at the forward pipeline here. What part of it is the medical technology side, nuclear side, if you're able to say, give any guidance there?

James Molinaro: Nuclear is huge compared to medical and anything else. (Cross talking) Nuclear pipeline is huge (cross talking) probably in numbers the greatest opportunity, and a lot has to do with the expansion we did at Ranor, the new Gantry Mill, and a pending announcement on a new waterfront facility. It's in the investor presentation, but what companies like Westinghouse are faced with is, since 1980, 75 percent of the U.S. supply base of companies like TechPrecision and Ranor are either not in business or not N-stamp certified, so there's few and far between that can do the work, so the pipeline for nuclear is mind boggling at this point. And again Fukushima was really bad but catalyzed interest in new advanced reactors. We still have six reactors under contract here in the United States, two are in construction, UK's about to announce three to four more, South America, Czechoslovakia—the AP 1000 from Westinghouse is the clear leader. And a lot has to do with, because of Fukushima. People wanted a more advanced passive design. Our opportunity of what we could support per nuclear reactor could be anywhere from $12 million a reactor to north of $60 million a reactor in a given year at full blown capacity. So it's a huge pipeline for us, which is why we're spending a lot of time on it.

Peter Trapp: When you say $12 to $60 million, I mean, you don't have the manufacturing capability or the capacity, do you, to take on those kinds of projects?

James Molinaro: Not yet, that's correct. We do not. We would have to start walking, but as we noted, nuclear's up $0.7 million but it continues on a slope up, but any prime reactor assemblies that we get contracts for are large numbers. And yes, with our customers we've got to walk with them, but walk with them is no longer these half-million dollar, $1 million nuclear orders, they're $5 and $10 million orders and that's why we remain pretty bullish on where we're positioned on the nuclear side. So that's a very, very good pipeline opportunity. (Cross talking)

Peter Trapp: Do you have enough certainty of any of these projects to kind of go ahead and put in place the assembly facilities, which I presume would have to be in a place where you can transport them other than by road?

James Molinaro: Yes. I'm planning before the end of this calendar year to give a detailed report and recommendation on which site and when to move forward, and with as little risk as possible. If you don't have the facility you can't book the order and if you do have the facility you don't want to burn cash, right? So between wind turbine—and for anyone on the shareholder you haven't heard that from us before for a long, long time. Between wind turbine, defense and nuclear I'm pretty confident that the announcement of consummation of a waterfront facility—that would be a Brownfield and not a Greenfield which means we could start pretty quickly—would help to solidify the contracts to warrant the facility, and it's not going to be based on one sector or one customer, it's based on multiple business development activities. But nuclear's the strongest pipeline today.

Peter Trapp: Is it your sense that you will actually get an order so that it would be almost like a take or pay situation, where they give you an order and you—or multiple orders or multiple clients—such that you have enough forward demand to go ahead and do a project like that? I mean, is that the way it's going?

James Molinaro: (Cross talking). When Rich referred to this as a seed project—we started this operation consideration with one seed project, and now it looks like we have at least two seed projects to consider to move forward with that would be a very short term. For this new facility to be able to build the larger nuclear assemblies, it has to go through a six to eight month certification process, so you need the seed projects to pay the bills and make money—not just pay the bills but make money—and these seed projects are in excess of a year so, yes, it's chicken and egg. The best opportunity is to get a purchase order and then scramble and say ok, we pick this site, and the other one is to pick the site, announce it, and then and go get the order as fast as possible. So I'll take the first, but it will probably be the second.

Peter Trapp: Okay. Thank you.

James Molinaro: Yes.

Operator: Thank you. And as a reminder ladies and gentlemen if there are any additional questions, please press the star followed by the one, and if you are using speaker equipment, it will be necessary to pick up your handset before pressing the star key. Our next question comes from the line of Tony Pollock from Maxim, please go ahead.

Tony Pollock: Good afternoon. Could you give us a little more color on the commercial industrial gas customer, and is there a possibility of getting more of these type of customers?

James Molinaro: Ranor has traditionally supported a number of different customers in the commercial sector. And the answer is yes, there is at least one other like it of scale that we're already building articles for now, and will continue, and it's actually used in the carbon black world. So we have this bucket sector called commercial industrial and a lot of these Tier-1s fall under that, but there's more than one really good strategic commercial project beyond industrial gas. And that's all part of the business development efforts but yes, the answer to your question is yes. I know of at least four that are in play now.

Tony Pollock: Can you give us an idea of the potential there in terms of volume?

James Molinaro: The revenues on an annual basis could range anywhere between $5 to $20 million per each of those Tier-1s.

Tony Pollock: Great, thanks.

James Molinaro: Mm hmm.

Operator: Thank you. Our next question comes from the line of Eric Duncan with Moloney Securities. Please go ahead.

Eric Duncan: Good afternoon, gentlemen. Good quarter, especially in terms of new customer wins, delays aside. I have a question for you in regard to the WCMC facility in China. As far as things that are growing for you in the present, right now, I feel as though that is your strongest one. If I'm not mistaken, the history on that was that late last year it was a concept, that it went to production and shipping in June of this calendar year, that in Q1 and Q4 last year, revenues generated from China from this facility were less than $500,000 I think, fair to say, per quarter?

James Molinaro: I think less than $100,000, yes.

Eric Duncan: Less than $100,000, okay. And that given the guidance and the fact that half of this pushed out order was coming out of WCMC that by the next quarter we should be at minimum maybe $2.5 million in revs out of that facility, is that fair to say? Is that…

James Molinaro: Yes, I think we put in the release that we believe that CMC revenue will be at least 20 percent of the total revenue so if you apply that to the ranges we gave in guidance (cross talking). That number is possible.

Eric Duncan: And so at the low end 2.5 million.

James Molinaro: Yes.

Eric Duncan: Right. Good. Well, obviously that represents a lot of progress on a sequential basis and just from the reality of getting something up and running and productive in a short period of time. So congratulations on that. How should we think about that now that you are up and running and producing there, in terms of your capacity? You've got a lot of customers there, you anticipate being capacity-constrained—how should we think about that?

James Molinaro: Good question. We have the production line forecast as I mentioned—we started out with one customer and then we added one customer one product and now we have five products, however one of those five products is for Ranor so, four products additional for CMC, so we're running five projects total out of China today. And to your point, thank you for the observation that in a little more than a year the company went from nothing to, to cite your number, like a $2.5 million number in less than a year from nothing. So, it is a lot of work. Sometimes when you do it so easily it looks easy, right?

But you know the reality is, we have capacity concerns, if every one of the five product customer forecasts are real. And so what we have to do is, all the customers and the products, those five product lines, we have their forecasts for fiscal 2013. It looks wonderful. Now we have to apply a filter to that and say okay, you know, there's a lot going on in solar and LED, how much is this real? Do we haircut it by 25 percent, do we haircut it by 50 percent? We believe based on our own haircut metrics we've applied, we have enough capacity to handle the growth.

Eric Duncan: Is that haircut metric 25 percent approximately?

James Molinaro: No, we took it down as much as 50 percent. And if it’s only 25 percent that's good news for us to go figure out. But right now we believe we can handle it at about the 50 percent haircut level.

Richard Fitzgerald: And it is a fairly scalable model, Eric, because we've got our expats over there and they're very much leveraged across an existing workforce and existing bricks and mortar. We work with our manufacturing partners to qualify them, to get their work cells configured in a manner that would produce the intended product in an efficient way. So it's a very symbiotic kind of collaboration but, you know, we've got a handful of folks over there, and two people skilled in machining and fabrication can have a very dramatic impact on a workforce of 40 or 100 employees that are already in place. And that's been very successful for us. We've shipped product out of two separate partners now, and we'll have a third one qualified during this coming third quarter to produce product. So, you know, leveraging existing manufacturing expertise and configuring it to do the work for which we have customers is pretty interesting over there. But it is a very scalable model because we don't have to own the entire workforce, we don't have to own the bricks and mortar, which is complicated in China.

James Molinaro: And overhead, something to consider.

Eric Duncan: So is it fair to say then should—which is currently not anticipated—should all of these programs turn out to be completely real and no haircut, your primary constraint is manpower, not necessarily physical space or manufacturing capacity?

James Molinaro: Correct.

Eric Duncan: So that's something where, frankly, you could hire people, right?

James Molinaro: Hire, and have the expats running it—remember right now our expats manage the quality, the operation, the machining, the fabrication, and oversee all of it, so we would need to make sure there's enough expats there to do that job and make sure we have the consistent quality.

Eric Duncan: Okay, can I touch base back on your haircut metric which is interesting because on one hand as you noted in your preamble, in America a lot of solar things—there's been a lot of turmoil in that space and yet—I think your move strategically to China was really well timed, actually, in retrospect. And so, if a lot of your new customers at WCMC are Chinese, do you feel that it's appropriate to apply this sort of 50 percent reduction in believability of orders or something along those lines?

James Molinaro: I'll tell you what will have me reduce the haircut—and remember China comes up with their five year—you're going to like this, this government actually sits down and comes up with a five year plan and says guess what, we're going to do this, this and this, and there's no voting on it, right? And there's no debates and there's no super committees, they just do it. If China—China has made the incandescent light bulb ban official, now all the way down to 15 watts. That's serious. If they make this 15 gigawatts of solar panel installs official, which, that vote can come any day now from the twelfth planning session, that's 15 nuclear reactors worth of solar panels to be installed. That will then have me reduce my haircut and scramble a little bit more on the manpower front. So making that commitment would be huge. Remember the original Golden Sun project for China on the eleventh five year plan was only 15 gigawatts—sorry, 5 gigawatts. Now we're talking 15 gigawatts. That's amazing. In perspective, the U.S. has installed less than one gigawatt.

Eric Duncan: And Germany is three?

James Molinaro: Germany's actually done pretty good. Italy has picked up the slack a little bit, although they've had their issues. I think Italy was close to something like 2.2 gigawatts last year. Germany I kind of lost touch with. Years ago it was huge and now it's very quiet. Except for wind turbines. It's been more quiet on solar.

Eric Duncan: (cross talking) be confident with the backlog at WCMC in particular, is it fair to say you have a higher confidence in your sapphire customers? And awaiting this decision on the solar mandate?

James Molinaro: The only well—the answer is yes but please add monocast to it. Monocast is a trendy product and for all the right reasons it delivers a higher efficiency cell and wafer than a multicrystalline, and certainly less money than the CZ pull method so, I think one of our customer has spent a fair amount of time talking about it, but you know the industry's talking about this as a trend so I think we'll see more and more monocast business in addition to sapphire.

Eric Duncan: Okay. Good, well, overall, nice customer wins this quarter, and you know the delay was unfortunate but I appreciate the hard work, and talk to you again next quarter.

James Molinaro: Thank you.

Operator: Thank you. We are going to take our final question which is a follow-up question from the line of Peter Trapp from Bifrost Partners. Please go ahead.

Peter Trapp: Yes, I just wanted to follow up a little bit more on the sapphire LED side, and I think it was Theo who asked specifically how many sapphire customers there were, potentially. I think I heard you say three.

James Molinaro: Sorry, I was mistaken. I was confusing competition and customers. Sorry.

Peter Trapp: Okay. But my question really is to try to get a sense of the addressable market, because whether it's two customers, three customers, or five customers, it's not the number of customers it's the addressable market that's really the key here, and what percentage of the market, market share, you have as your goal. So I'm wondering if you could just address that please.

James Molinaro: Okay. In terms of chambers, I'll address it in terms of what we make for—what we're really good at is high precision high temperature vacuum chambers. Big ones. And we have five different product lines of that variation. In terms of chambers the outlook per year installed is somewhere in the order of—this is for sapphire—a thousand to two thousand sapphire chambers per year. Our plan was to address at least 350 of those chambers out of China and 50 to 75 of those chambers out of the U.S.

Peter Trapp: Okay so I heard 350 in China and I heard 50 to 75 in the U.S.?

James Molinaro: Yes.

Peter Trapp: Okay. And could you give us a sense of ASPs?

James Molinaro: Respectfully, no, because it varies amongst the three different sapphire technologies, and the range would be fitting in—one of those three sapphire customers could say, why am I not on that low range, I'm on the high end, so respectfully I would prefer not to.

Peter Trapp: Okay, that's fair, I understand that. I think that in a way that really, to me, dramatizes the potential size of the market and your opportunity in this field, which is actually pretty impressive, and if you put that together with the nuclear side that you have available to you, I mean, there seems to be tremendous growth opportunities, and yet, and I don't mean to sound anywhere negative here. But as you look at the numbers it just seems as though the growth rate, quarter by quarter as it goes along, is not showing the kind of 20 to 30 percent growth that I would have expected given these market opportunities. What am I missing?

James Molinaro: You're not, other than the time it takes to go from prototype to production. So after we build the first two or three units—typically a customer will order three units, and then they test the three units and say, here's your production order. I think Eric pointed out that we've been at this less than a year in China, and have now turned five product lines out, in that time frame of a year, and now these are going from prototype to production, so we're just in that window. You're not really missing anything other than that we've done an awful lot in an awful short period of time, and now it's time for it to evolve from prototype to production, and you should see the fruits of those labors as I said, certainly turning into the Q1 fiscal 2013 time frame.

Peter Trapp: So the technology side is solved and the product is approved, so now it's the capacity add issue then?

James Molinaro: That is correct.

Peter Trapp: Okay, I've got you.

James Molinaro: Yes.

Peter Trapp: All right, so that's where the acceleration's going to come.

James Molinaro: You're spot on, that's exactly it.

Peter Trapp: Okay. Thank you.

Operator: Thank you, and at this time there are no further questions in my queue, I'd like to turn the conference back over to management.

James Molinaro: Okay, thank you very much. Ladies and gentlemen again, thank you to our shareholders for being with us today. As you heard, there's a lot of excitement going on here, and there's a lot of phenomenal opportunities for us in the pipeline but also in our current hands as we take this from prototype into production. We're all very busy, but we'll tell you every member of this company is also very excited at where we're taking it. And I appreciate the support, and I look forward to our next call together. Thank you.

Operator: Ladies and gentlemen, this does conclude the TechPrecision Corporation Second Quarter Fiscal Earnings 2012 conference call. We thank you very much for your participation and you may now disconnect.