

**Transcript of
TechPrecision Corp
Second Quarter 2020 Earnings Call
November 13, 2019**

Participants

Brett Maas - Hayden Investor Relations
Alex Shen - Chief Executive Officer
Tom Sammons - Chief Financial Officer

Analysts

Howard Brous - Wellington Shields
Ross Taylor - ARS Investment Partners
Richard Greulich - REG Capital Advisors
Mark Gomes - Pipeline Data
Maj Soueidan - GeoInvesting

Presentation

Operator

Good day, ladies and gentlemen. And welcome to today's call. All lines will be placed on a listen-only mode and the floor will be open for questions and comments following the presentation. [Operator instructions].

It is now my pleasure to turn the floor over to your host Brett Maas of Hayden IR. Sir, the floor is yours.

Brett Maas - Hayden Investor Relations

Thank you. On the call today is Alex Shen, Chief Executive Officer; and Tom Sammons Chief Financial Officer.

Before we begin, I'd like to remind our listeners that management's remarks may contain forward-looking statements, which are subject to risks and uncertainties and management may make additional forward-looking statements in response to your questions. 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 detailed discussion of risks and uncertainties in the company's financial filings with the SEC. In addition, projections as to the company's future performance represents management's estimates as of today, November 13, 2019. TechPrecision assumes no obligation to revise or update these forward-looking statements.

With that out of the way, I'd like to turn the call over to Alex Shen, Chief Executive Officer to provide opening remarks. Alex?

Alex Shen - Chief Executive Officer

Brett, thank you. Good day to everyone and thank you for joining us. Our second quarter of fiscal year 2020 was highlighted by the start-up of multiple new projects following the addition of \$11 million in new sales orders since March 31, 2019. Our backlog at September 30, 2019 totaled \$16.4 million, an increase of \$3.8 million compared to \$12.6 million at March 31, 2019. With the new projects coming online in the second quarter, we expect to

operate above current revenue and operating income levels and return to profitability during the second half of fiscal 2020.

I would now like to turn the call over to Tom Sammons, who will tell us more about our second quarter financial results. Tom?

Tom Sammons - Chief Financial Officer

Thank you, Alex. Net sales were \$3.1 million for the second quarter of fiscal 2020 compared to \$3.6 million in the second quarter of fiscal 2019. As Alex commented, our backlog remains strong, as new orders for components continue to flow down from prime defense contractors. Cost of sales for the second quarter was \$2.7 million compared to \$2.5 million for the same quarterly period a year ago. Our second quarter financial results were impacted by under-absorbed factory overhead and increased costs associated with a loss provision for certain projects already in progress.

Selling, general and administrative expenses decreased by \$10,000 in the second quarter. Interest expense and debt cost amortization was lower in the second quarter ended September 30, 2019 and will continue to decrease, barring any indebtedness, as we amortize debt principal to maturity. Net loss for the second quarter ended September 30, 2019 was \$291,000.

For the six months ended September 30, 2019 net sales decreased by \$312,000 or 4% to \$7.4 million when compared to \$7.7 million for the six months ended September 30, 2018.

Our cost of sales for the six months ended September 30, 2019 was \$5.9 million compared to \$5.6 million for the six months ended September 30, 2018. Gross margin was 20.6% for the six months ended September 30, 2019.

Total SG&A expenses for the six months ended September 30, 2019 increased slightly by approximately \$1,000 due primarily to an increase in outside advisory services almost entirely offset by a decrease in compensation expense. Interest expense decreased by 20% for the six months ended September 30, 2019 and should continue to decrease as we amortize debt principal. For the six months ended September 30, 2019 our net loss was \$70,200 compared with net income of \$345,100 for the same period a year ago.

Moving to the balance sheet, at September 30, 2019 we had \$2.6 million in cash and working capital was \$6.2 million. Cash provided by operating activities was \$0.9 million for the six months ended September 30, 2019. Net debt at the end of the second quarter of fiscal 2020 was \$1.3 million.

With that, I will now turn the call back over to Alex. Alex?

Alex Shen - Chief Executive Officer

Thank you Tom. TechPrecision remains proud and honored to serve the United States defense industry specifically naval submarine manufacturing through its Ranor subsidiary. We continue to see meaningful opportunities in our defense sector, primarily in the nuclear submarine business for the next 12 months and beyond. I am excited with the start-up of multiple new projects.

I would now like to open up the call for Q&A.

Operator

Thank you. The floor is now open for questions. [Operator instructions]. And our first question comes from Howard Brous with Wellington Shields. Please go ahead.

Q: Hi. Thank you. Alex, since I've been involved in the company for more than five years the first time I've seen the backlog jump as much as it has. So one, congratulations. And two, it is exciting for me to hear you as excited as you are, because I've never heard that on any conference call that I've been on with you. So, I'm very happy to hear on both. Could you comment as to what the backlog is as of today? Is that possible?

Alex Shen - Chief Executive Officer

Tom?

Tom Sammons - Chief Financial Officer

It's not possible only because we net our POC revenue against the backlog, so we have to understand how much we've realized against the backlog, and we don't have that number yet. But we have picked up additional orders in the quarter -- in the month.

Q: So additional orders beyond the \$3.8 million backlog. Okay. Thank you. Secondly, I just want to confirm that Block V is effective, and that the government has funded it. Is that a correct statement from your knowledge, Alex, it's ten submarines?

Alex Shen - Chief Executive Officer

Howard, I think I heard about three questions in there. So let me parse this thing.

Q: Sorry.

Alex Shen - Chief Executive Officer

It's okay. Ross does this to me all the time.

Q: Don't worry. He's your next questioner.

Alex Shen - Chief Executive Officer

I think the first question was on Block V. Block V is a viable program and it is going on. I think your next question was on funding. I can only refer you to publicly available information.

Q: According to the public information, it has been funded for a total of nine submarines plus one additional?

Alex Shen - Chief Executive Officer

I believe that you're quoting some hearsay that is not corroborated by any contracts.

Q: No. There was a public announcement by the Department of Defense.

Alex Shen - Chief Executive Officer

That's not a contract release announcement.

Q: Okay. Appreciate that.

Alex Shen - Chief Executive Officer

Right.

Q: That's all I have. Again, I am very happy that you are as excited as you are. I'll leave the floor to Ross Taylor next, I'm sure.

Alex Shen - Chief Executive Officer

Thank you for your support.

Q: Always a pleasure, Alex, and thank you.

Operator

And our next question comes from Ross Taylor with ARS Investment Partners.

Q: So, Howard's prescient. Okay. Let's deal with the one thing that really jumps that I haven't seen out of a company -- this company since you've been running it, Alex, which is the fact that you had some cost issues on a project loss. Can you talk to us about what that is? How much that loss was? And will that loss have an effect on the profitability long term of the Virginia Block V contracts?

Alex Shen - Chief Executive Officer

Well, okay, so I think they were five questions in there. Let's deal with the first one. Can I talk to the losses? Yes.

Q: Yes.

Alex Shen - Chief Executive Officer

The losses were due to the start-up of multiple new projects exclusive to the new projects and not for repeating part numbers whatsoever.

Q: Are they costs that will -- or were they basically one-time costs that are going to be effectively recovered or not impact future profitability and whatever those? It sounds like they were basically kind of almost spec built or determine whether you could build something type projects as opposed to things you've already been spec'd in for?

Alex Shen - Chief Executive Officer

They are not things that we've built before. They're brand-new part numbers. Generally speaking, I would like to think that I'm going to go after business that repeats the part numbers over time rather than just one-time deals. So that's how I would characterize those as really start-up costs. And do I expect that the losses will repeat? Well I don't think so. I would point out that our finance group has reserved for these losses already.

Q: So, all the damage that can be -- you expect to be done by these projects is in the numbers that you released today?

Alex Shen - Chief Executive Officer

As far as I know yes. Absolutely.

Q: Okay. Good. Because as I said I think, and Howard was getting to, it would appear that with the not official release of an order but the statement that the Navy and General Dynamics have reached an agreement to fund nine boats plus an option that you were set that the Virginia Block V within a few weeks will be set up to build what appears to me to be probably two years of three boats. And then as the Columbia-class comes on board revert back to two boats built a year along with a Columbia-class. And so we really have started that event when it is officially signed is a watershed, is it not, for this company?

Alex Shen - Chief Executive Officer

I don't think I can comment intelligently on that, because you're talking about the build cycle. But we're not on this -- it's a little difficult to answer the specificity of your questions.

Q: What I'm actually getting at is – what I'm getting at, Alex, is it would appear that from what we have seen and what you have said you came out a few calls ago and talked about having a \$40 million to \$50 million annual run rate at \$80 million to \$100 million two-year projected revenue numbers. It's my assumption from everything I've read that that number is based – that \$80 million to \$100 million number is based largely on if not fully on the emergent of the Virginia Block V from the drawing board into production. And that – it's the revenues that you would expect – TechPrecision would expect to be receiving as that project rolls forward in the next two years, is that not correct?

Alex Shen - Chief Executive Officer

So, the numbers that you're talking about are the opportunity numbers, not the annual revenue numbers, just to be clear. The brunt of what we do in naval submarines is going to be Virginia-class based as far as volume goes and Columbia-class as well. But Columbia-class has less volume, but it's a much bigger submarine.

Q: Right. And it's also out, is it not in time, because the Columbia-class is not on the waves nor is it projected to be on the waves in the next year, I believe?

Alex Shen - Chief Executive Officer

So, there's the build cycle of the submarines and then there's the ordering cycle for components which is probably long-lead ordering cycle is way ahead of the build cycle.

Q: Okay. And so basically these things are coming together at this point in time and that it would seem to me that with the company operating basically with a neutral net debt position or new neutral net debt position with your backlog building, with your historic operating margins being significantly higher than those you achieved in the quarter that just ended, I would expect that we're going to see some pretty substantial increase in free cash flow.

And so rather than ask you about that, because I know you'll just not answer it, what I'm going to say is that as one of your larger shareholders it's our position that that assumption warrants, the company, the Board and others coming to us as investors and allowing us to understand how capital is going to be returned to shareholders through this process because as we see it this is a game-changing event. Getting this contract signed substantially derisks the outlook for TechPrecision. You've historically been an exceptionally good operator. I would expect that you will continue to be a good operator. And therefore, I would suspect that we should be looking at the situation with this company in the next few years is able to generate what would likely be a 20% to - based on today's stock price a 20% to 30% free cash flow margin against the stock price.

And in light of that I would be hoping that there would be plans to and shareholders would be alerted to them that you're going to be returning capital to us in a meaningful way in coming years, because I see the way the stock trades, and it simply trades as though the bulk of your holders do not understand the business model. And I think that's a problem, because when you don't communicate to them and I know why you argue you cannot communicate, but this stock is exceptionally volatile and there's no real need for it. This should be one of the least volatile names going forward. You have such visibility looking out over the next four, five -- I mean, this contract you're talking about is four fiscal years.

And I seriously doubt, having been in the defense business at one time, I seriously doubt you don't have a damn good idea what your revenues are going to come off of these boats, because I'm pretty sure they've already prepared everyone for what they're going to get. And you have been operating inefficiently, because I assume you're carrying extra costs to be ready to produce when you get these orders, correct?

Alex Shen - Chief Executive Officer

Do we have extra capacity? Yes. Are we operating inefficiently? I would say we're not operating inefficiently. I think we're pretty efficient.

Q: Well, I would say you're efficient in execution. What I mean by inefficiently is you probably have more bodies hired than you need for the current demand because -- and we're seeing this in some of your compatriots who are trying to hire people to fill slots. If you put off hiring people until you actually get the fiscal contracts, you might not be able to actually hire the people you need. And given your reputation and ability as an operator my guess is you did not want to take that as a risk.

Alex Shen - Chief Executive Officer

Well, we balance that risk against the lumpiness. So, when the demand sometimes spikes for a little while I need to have the bodies to cover that demand.

Q: Yes.

Alex Shen - Chief Executive Officer

And then on the other hand when it dips into valleys where there's just the business is just naturally lumpy then I don't want to have too many bodies that I have to carry around for an extended period of time. So, it's a balance that we just need to watch on a very frequent basis.

Q: But you're comfortable that you're adequately staffed to perform the contracts of which you were receiving?

Alex Shen - Chief Executive Officer

I'm comfortable that I have the capability to flex to meet demand. That's what I'm comfortable with. At any given point in time, it goes up and down. So, I'm comfortable that we have the capability to flex to that adequately to meet customer requirements.

Q: Good. And as I have said, I'll step back out of this, but I do believe that it's -- given the paucity of information we often get from you, I believe that it's important that the Board develop a return of capital strategy for investors, because they have publicly stated in previous calls they do not believe a company of this size warrants being public and I would like to make sure that as we work through this scenario that the shareholders are rewarded for it. And the best way to reward us is to basically return substantial amounts of your free cash flow to shareholders through a buyback. And there is precedent in your industry. Hexcel publicly states that they will return 90% -- well 50% of their free cash flow to shareholders in the buyback each and every year.

So, there are people in the space who do it. And I believe that it's important that we get into that situation because it might help smooth out some of the trading volatility where people who don't understand the long-term outlook for this business feel compelled to sell stock aggressively, which causes others who might be interested to walk away because they're afraid of the volatility. And I'll step back in the queue. Thank you.

Alex Shen - Chief Executive Officer

Thank you for your support, Ross.

Q: You're welcome.

Operator

[Operator instructions]. And our next question comes from Aaron Warwick [ph] with ES Capital. Please go ahead.

Q: Hey, guys. Thanks for taking my call. Looking forward, with these increased backlog numbers to future quarters. Kind of referring to what Ross said about that \$80 million to \$100 million, which if I remember correctly you changed later to just \$100 million, I wanted to ask you about that. Alex, is that number that you're looking at,

the work that you're targeting is that \$100 million still what you have in mind? Has that increased or decreased at all?

Alex Shen - Chief Executive Officer

That has not decreased. That opportunity is there.

Q: Okay. Has it increased at all?

Alex Shen - Chief Executive Officer

I'm telling you it hasn't decreased.

Q: Okay. Is any of the backlog that was reported as of September 30, does that include any of that \$100 million?

Alex Shen - Chief Executive Officer

The opportunity remains as far as the dollar value.

Q: Okay.

Alex Shen - Chief Executive Officer

I have to be very careful in answering these questions, because I've been pretty much point-blank told by our direct customers to be very careful.

Q: Okay. Well I respect that. Last thing, I want to do as a shareholder is get you in trouble. That just gets me in trouble. You had also mentioned on previous calls about pursuing work with carriers, and it looks like the Navy is moving forward with some of that as well. Is that something you're still pursuing, or have you obtained any of that work?

Alex Shen - Chief Executive Officer

In I think two or three calls previous I had already alluded to the fact that carrier is now part of our business. Okay. And it still remains so.

Q: Okay. On the international front, I'm just wondering I asked about it, there was an article before the last call. And I know you couldn't talk about that much, but it made me think about it more here. International opportunities especially here relates to submarine tube work. It sounds like some of the tube work could be available for competitors of a company that said they were no longer going to be working on that. Are you pursuing any international opportunities like in the U.K. or elsewhere?

Alex Shen - Chief Executive Officer

I am absolutely restricted from any comment whatsoever on that topic.

Q: Okay. Appreciate your time. Thank you, guys.

Alex Shen - Chief Executive Officer

Thank you for your support.

Operator

And our next question comes from Richard Greulich with REG Capital Advisors. Please go ahead.

Q: Thank you. I wasn't able to hear clearly the answer to the question of regarding what the backlog currently is. And I understand not being able to calculate that, but let me rephrase the question. Have you received continued new orders since the last quarter ended?

Alex Shen - Chief Executive Officer

Have we received new orders since the last quarter ended?

Tom Sammons - Chief Financial Officer

Yes.

Q: Yes. And have they run at the same rate as the prior quarter?

Alex Shen - Chief Executive Officer

I can't tell you that right now.

Q: Okay. Could you tell me what the capital spending program looks like over the next one to two years?

Alex Shen - Chief Executive Officer

Due to competitive reasons, I'm going to not answer that question.

Q: Okay. Could you tell me what you expect the employment level to look like in a year and then two years from now?

Alex Shen - Chief Executive Officer

That again is going to be in the category of a competitive nature. Our competitors are all private companies and we're the only public one. So, we're all watching each other like hawks. So, I'm going to decline to answer that question. I would comment to let you know that I watch my employment levels carefully, so I can match them up with the up and down fluctuating lumpy demand and I do not as a rule miss customer requirements.

Q: Yes. That intrigued me. Could you describe the mechanics of how you're able to flex up and down your employment?

Alex Shen - Chief Executive Officer

I'm not going to be able to do that due to the competitive nature of how we do it.

Q: Separately, could you discuss any non-defense business during the quarter, roughly how much of it was? And then what the outlook for that is?

Alex Shen - Chief Executive Officer

Let me see here. I might not be able to grab how much of it is. But if you use the 80-20, it would be in the minority. So, the outlook for that is opportunistically we're going to pursue non-defense business. That is our stated objective and we continue to execute that objective quite well.

Q: And does it look like there are interesting opportunities to pursue in the non-defense area at this point?

Alex Shen - Chief Executive Officer

Opportunistically, they land. I am pursuing primarily defense business. This company has been converted over to a defense-centric business. So, if the other opportunities in non-defense match well with our capabilities in defense, we'd be more than happy to take an order. If they don't match, then it doesn't work.

Q: Okay. Thank you.

Alex Shen - Chief Executive Officer

Thank you.

Operator

And our next question comes from Mark Gomes with Pipeline Data. Please go ahead.

Q: Great progress, guys. Just, so I'm 100% clear. So we were discussing Block V and how it's not been contracted. So that's safe to assume that none of your orders or backlog include any of that, correct?

Tom Sammons - Chief Financial Officer

Correct.

Q: Thank you.

Operator

And our next question comes from...

Alex Shen - Chief Executive Officer

Mark, I need you to repeat that question, please.

Operator

And this is the operator. Mark is no longer in the Q&A queue.

Alex Shen - Chief Executive Officer

Okay. Well, I think what I heard -- this is Alex Shen talking. I think what I heard was, do your orders and your production include Block V? And the answer is, yes, that's correct.

Operator

And our next question comes from Howard Brous with Wellington Shields. Please go ahead.

Q: Thank you. Just to clear up one issue. The comment from Commander Danny Hernandez, the Navy spokesman says, they have reached a multi-year agreement with General Dynamics and are working to announce a contract by December 31. So, just to clear that up.

Secondly, to follow-up Richard's questions and comments, at one point in time, several years ago you were doing business for Mevion. Are you currently doing any business? Or can you not comment about that with Mevion?

Alex Shen - Chief Executive Officer

I have been asked specifically by Mevion to not comment on their business.

Q: Okay. That sort of answers the question. And secondly, there was a point in time several years ago that you were manufacturing nuclear casks. Can you comment about that?

Alex Shen - Chief Executive Officer

That was before my time.

Q: Okay. That's all I have. Thank you.

Alex Shen - Chief Executive Officer

Thank you.

Operator

And our next question comes from Ross Taylor with ARS Investment Partners.

Q: Okay. So, some follow-ups. With regard to the nuclear casks, are you doing or looking at the potential of doing business with the Department of Energy?

Alex Shen - Chief Executive Officer

With regard to nuclear casks or DOE overall?

Q: Overall.

Alex Shen - Chief Executive Officer

Overall, opportunistically, we will take a look at DOE.

Q: And what type of products might you supply them?

Alex Shen - Chief Executive Officer

Ross, just to be very direct, it's not the type of product that we go for, it's really what fits and what they see fit to quote us on.

Q: Okay.

Alex Shen - Chief Executive Officer

It's more of a passive approach maybe, but it's not a very laser beam targeted on this type of product. It's not a product-oriented approach.

Q: So, is that -- is your approach with them that they come to you looking for your expertise to see what you can do for them? Or are you going to them with ideas of what you can do supply to them that they might need?

Alex Shen - Chief Executive Officer

I do not go to them with ideas on what products. I go to them with capabilities.

Q: Okay.

Alex Shen - Chief Executive Officer

It's up to them to match the capabilities with the products that they know about what they would outsource. They're not the core customer, so I don't know that much about them internally. And frankly, the opportunity with defense and nuclear submarines is just overwhelmingly large, and that's the space that we primarily live in.

Q: Right. Now looking at that, the press release that Howard Brous referenced talks about a four-year deal. You, in your previous comments and talking about the \$100 million revenue base, which you said has not gotten smaller, talk about a two-year revenue base. If the Navy signs a four-year agreement with Electric Boat, would that basically suggest -- I assume that would all be Block V and therefore any products you're supplying would likely be carried through products through the entire four-year cycle. Since my experience once again is the types of things you're doing as long as you execute operationally your strength, are not things that are going to be taken and handed to someone else midstream in a four-year block procurement? So, does that actually -- what would -- with your numbers that we're looking out over four years instead of two would they be \$200 million?

Alex Shen - Chief Executive Officer

I don't know.

Q: Am I on the low side?

Alex Shen

Well I think we're both on the "I don't know" side, because I don't have the visibility into three and four years. So, I don't know how to answer the question, is the honest answer.

Q: Okay. And then lastly, obviously being public is a drawback for you. It's a drawback with regard in some ways to -- for those who you work for. So just to let you know that if being public is seriously a problem we, being your largest holder, would be open to talking to people about rectifying that situation.

Alex Shen - Chief Executive Officer

Understood.

Q: I mean it's exceptionally frustrating as a shareholder to not be able to get what I think is a really incredibly good story out into the public marketplace. And so the valuation of this company as I think is going to be -- my concern is it will be chronically undervalued because people simply aren't going to work hard enough to figure out what the underlying story here is. And I think we see that on a regular basis. I think we've seen it in the last few weeks in the stock price action. And I think that's about what I have right now.

Alex Shen - Chief Executive Officer

Thank you, Ross.

Operator

And our next question comes from Aaron Warwick with ES Capital [ph]. Please go ahead.

Q: Hey guys. Thanks. I just want to follow-up with one thing. I think it especially relates to what Ross said about people not understanding the company. And so one thing I want to do, I don't know if this could help provide some clarity, but just using as an example, as you know that this Block V thing could close with the nine boats by December 31. So, let's just say that it does close by December 31. And I honestly don't know. I mean I'm a novice in this industry myself. But how long does it take then for the majority of that work that you're confident in getting? How long that takes to show up in your backlog? When would people see that?

Alex Shen - Chief Executive Officer

That's an area I've been told to really be cautious on revealing insider information from the Navy and the two prime shipyards. So, I'm going to respectfully decline to answer the question because of the cautions that have been put on me by the prime shipyards.

Q: Okay. That's all I have. Thank you.

Alex Shen - Chief Executive Officer

Thank you.

Operator

And our next question comes from Richard Greulich with REG Capital Advisors. Please go ahead.

Q: Alex, to date you've only mentioned backlog and orders at the end of the quarters. If you were to receive a meaningfully large order in the middle of a quarter, would you feel that would be an event that should be announced to shareholders in the market?

Alex Shen - Chief Executive Officer

I would need to get permission probably from clients. And I would also need to balance that against things of a competitive nature, so that I don't diminish our ability to secure more orders.

Q: Would you be able to make an announcement to the extent of what the numerical numbers are without directly tying that into a specific contract? In other words, if your backlog...

Alex Shen - Chief Executive Officer

I think these pauses that I have are both trying to think through the process as well as how to let you know once again that these pieces of information that are put out there need to be carefully managed so we don't lose anything therefore damaging shareholder value versus the value of the information.

The -- it's a careful line that needs to be walked. Much of the time the customers are pretty negative on us bragging about things because they tend to punish us with less. So that's the direct responses that I would end up getting from our clients. And they are very, very large clients, very powerful and very capable of really squeezing down the number of orders and the value of the orders that we get. And then there's the competition. Once they know that certain things are happening well then, they're going to compete more fiercely against us.

Q: Okay. Thank you.

Operator

And our next question comes from Ross Taylor with ARS Investment Partners.

Q: It's not a question, it's actually more a comment again. I think that the last point was a very valid one and I would suggest that you listen to how some of your peers handle calls that we have investments in, companies that work a lot with 3-letter agencies in Washington D.C. and they have figured out ways to let the market know when something material happens. You are public. And so, you talk a lot about the duty you owe the Navy and the Submarine Corp but at the same as well as Electric Boat, but you also have that same duty. You owe a fiduciary duty to our shareholders.

And if it turns out that the best answer here is that the company should not be public, then that's the answer, but it needs to be explored in a way, enough information needs to be present so investors can make a rational choice. It's a difficult situation for you, I appreciate that. But it's also a difficult one for your investors who are trying to basically parse this through as though you are speaking Sanskrit backwards in an echo chamber.

Alex Shen - Chief Executive Officer

Understood, Ross. Thank you.

Q: And good luck finding a solution to this. Yes, I live in the world where I knew things for a long time where things didn't happen until much later but it's tough. When you're a diversified company it's easier to hide, you're not. And I don't anticipate there will be any effort to become diversified so that you can hide these things. So therefore, I think that it's a puzzle. And there's an answer to it. And I think we all need to figure out a way to answer that puzzle so that everyone, so the business doesn't suffer but your shareholders don't live in the dark so that we can get a more fair valuation for what this company is.

I think this is a very unique situation literally where you have -- I've rarely seen such a long pathway that I can see as an investor. And it -- I find -- and my clients find it frustrating when the stock is battered by people who honestly just often haven't done the work and don't understand it and decide to get out by selling aggressively and that doesn't help any of us. I think we'd rather have this in strong hands that are comfortable and willing to sit with you for an extended time while you spin-off free cash flow and return it to us whether it be by share buybacks or dividends over the next three, four, five, eight, 10 years.

I'll get off my soapbox. Thanks.

Alex Shen - Chief Executive Officer

Yes sir. Thank you.

Operator

And our next question comes from Maj Soueidan with GeoInvesting. Please go ahead.

Q: Hello. I'm relatively new to the story so I guess what -- maybe you can help me out a little bit here, maybe everybody who's new to the story, how does revenue become realized through this whole process? It's through these awards that we're talking about and then the old budgets being freed up, awards contracts? What is the process where the orders finally flow to you and revenue has been generated? Can you kind of walk us through that process?

Alex Shen - Chief Executive Officer

Tom, do you want to take this one? I don't understand the question completely maybe because I'm too simple.

Tom Sammons - Chief Financial Officer

Well, we have two revenue streams. One is items when they ship. So, we fulfill an order and ship a product. And the other is on some projects we were able to do percent complete revenue. So, we recognize revenue as we build a unit.

Q: Well, explain the process of how that work -- that need -- the steps that occur for you to receive your orders -- receive the orders?

Alex Shen - Chief Executive Officer

For us to receive the orders, we're not -- this is a different question. How do I get orders?

Q: Well, the steps in receiving them? Yes. So, I guess coming into your backlog, what is that process, all the steps that occur to get there?

Alex Shen - Chief Executive Officer

I'm not going to be able to tell you all the steps that occur because that would be really telling you some inside information that I need to keep inside, right?

Q: Not necessarily, no.

Alex Shen - Chief Executive Officer

Okay. I mean they confidently give us orders. Our story is one that's U.S. Navy nuclear submarine-centric. So, those are the customers, the two shipyards and the primes that work for them are our customers.

Q: Right. And in terms of when a prime, for example, gets an order, wins maybe a contract, in terms of your experience how long is that process in terms of when it will--

Alex Shen - Chief Executive Officer

It depends. It really depends. Each item is certainly different and sometimes the same part number, it's different. It's a very lumpy business.

Q: All right. You have expectations what that range could be, right, from your experience running the company.

Alex Shen - Chief Executive Officer

I have expectations what I want it to be and then the customers do whatever they like.

Q: I understand that. From your experience, what is that typical range? I know -- experience with them.

Alex Shen - Chief Executive Officer

Whatever range I try to tie myself down to, I'm bound to be wrong.

Q: Okay. For the record, I mean I've been doing this for 30 years myself. And it's unusual for a company to come out and say we can't announce contracts when we win them because we're not going to get contracts in the future. I mean, it doesn't make sense that you would not announce these type of things as they occur. Just to sort of -- I appreciate your attempt to not share everything with us, but there are certain things you can share with your shareholders and winning major contracts and these kind of things is material information that you probably should share with us.

Alex Shen - Chief Executive Officer

I understand your comment.

Operator

And our next question comes from John Hardison [ph], a Private Investor. Please go ahead.

Q: Hey, good afternoon, Tom. How are you doing?

Tom Sammons - Chief Financial Officer

Good.

Q: I have one question that relates to the new orders that you have the one-time charges with I assume that they're DoD orders, is that correct?

Alex Shen - Chief Executive Officer

Well, most of our orders are DoD, so that would be a great assumption.

Q: Okay. And then the part 2, are they new parts for Virginia, for Columbia or for carriers or all of the above?

Alex Shen - Chief Executive Officer

Yes.

Q: All of the above?

Alex Shen - Chief Executive Officer

Yes.

Q: Okay. That makes me excited because that confirms that you are doing a very good job and they're giving you additional parts that you've never done before. So, congratulations on that. And then last, I completely agree with everything Ross said, and it'd be nice if we could get Ross to be your IR person.

Alex Shen - Chief Executive Officer

I'm writing that one down.

Q: Okay. All right. Thanks. I'm happy to see the backlog up and Virginia finally coming to fruition.

Alex Shen - Chief Executive Officer

John, thank you for your support.

Q: Okay. Thanks, Alex.

Operator

And that does conclude our Q&A session for today. I'll turn the call back over to management for any closing remarks.

Alex Shen - Chief Executive Officer

Thank you, very much, everyone. I appreciate your support. Have a good day.

Operator

And that does conclude today's teleconference. We appreciate your participation. You may disconnect your lines and have a great day.