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

I would now like to turn the conference over to your host, Ms. Karen Howard, Investor Relations for Graham Corporation. Thank you. You may begin.

Karen L. Howard: Thank you, Matt, and good morning, everyone. Thank you for joining us to discuss our results for the fiscal 2016 third quarter and year-to-date period. We certainly appreciate your time today. You should have a copy of the news release that crossed the wire this morning, detailing Graham's results. We also have slides associated with the commentary that we're providing here today. If you don't have this release or the slides, you can find them at the Company's website at www.graham-mfg.com.

On the call with me today are Jim Lines, our President and Chief Executive Officer; and Jeff Glajch, our Chief Financial Officer. Jim and Jeff will review the results for the quarter and the year-to-date period as well as our outlook. We will then open the lines for Q&A.

As you are aware, we may make some forward-looking statements during this discussion as well as during the Q&A. These statements apply to future events and are subject to risks and uncertainties as well as other factors, which could cause actual results to differ materially from what is stated on the call. These risks and uncertainties and other factors are provided in the earnings release and in the slide deck, as well as with other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at www.sec.gov.

With that, I am going to turn the call over to Jim to begin. Jim?

James R. Lines: Thank you, Karen. Good morning, everyone. We are pleased to have you with us for our third quarter conference call.

Please turn your attention to slide 3. Third quarter sales were $17.3 million and, as a result of this level of sales, we had to adjust top line guidance for the year to $90 million to $95 million. I want to take a moment to address what occurred in the quarter.

The quarter had been lightly loaded. This traces back to the level of non-naval bookings in our fourth quarter of fiscal 2015. That had a very light order level caused by our end markets' reaction to what was happening with crude oil prices at that time. It could have been inferred from backlog data we provided at that time that non-naval bookings in that quarter were between $10 million and $15 million. We ultimately dealt with that as low sales in this past quarter.

This light loading was impacted further by a few specific orders, one that was a large nuclear project and two or three others that were for North American petrochemical projects, where engineering iterations between the customer and us were ongoing and we could not launch those orders into production to commence revenue generation. Not releasing orders into production as planned due to engineering iterations is rather common. But due to the light load planned that quarter, the impact was far more pronounced than usual as there was insufficient other work in progress toward which to direct production resources.

We have a healthier fourth quarter loading, and see continuing improved production utilization for the first quarter of fiscal 2017. The decline in sales in the third quarter represents delayed revenue and was not a result of canceled orders. Our bookings held up well and backlog expanded at quarter end to $113.2 million.

Income in the quarter was $1.3 million or $0.13 per share. Cancellation charges from two orders recently terminated by refining market customers provided $1.8 million of pre-tax other income. I want to point out that neither of these two orders had been scheduled for production in the third quarter.

A little overview on the canceled orders may be helpful. We began bidding that work in the calendar 2013 timeframe. At that time, our markets were very active and it was a strong order environment. It was felt that risk was beginning to build and we became aggressive at negotiating cancellation language into our contracts. Admittedly, we did not see this current collapse in oil prices coming, but we did identify, based on our experience, that risk was increasing. The two orders were secured in the summer of calendar 2014 and placed into extended shipment schedules by our customers as we started entering calendar 2015. The forward-thinking action we took 2.5 years ago and how we mitigate order or backlog conversion risk led to the benefit of cancellation income this quarter.

Indeed, a lot was going on this past quarter, and Jeff and I will gladly reply to questions in the Q&A session.

We continue to be active with our share repurchase plan, having bought back 141,000 shares for $2.5 million in the quarter.

Please move onto slide 4. Sales in the third quarter continue to be dominated by sales to domestic end users. International sales were 38% of the total. Sales across our key end markets were distributed normally, with refining being the largest end market.

I am passing it over to Jeff to get into the details. Jeff?

Jeffrey F. Glajch: Thank you, Jim, and good morning, everyone. I refer you to slide 6. Q3 sales were $17.3 million, down 49% compared with $33.6 million in the third quarter last year. The decrease resulted from a combination of weaker energy markets coupled with the near-term project delays which Jim just discussed that were caused by customer engineering changes.

Sales in the third quarter were 62% domestic and 38% international, compared with last year's third quarter, which were 55% domestic and 45% international. Domestic sales decreased 41% to $10.8 million. International sales decreased 58% to $6.5 million.

Gross profit in the quarter decreased to $3.5 million from $10.1 million last year due to the lower volume. Gross margin dropped to 20% from 30% in last year's third quarter. The benefit of the project cancellation payments totaling $1.8 million provided the majority of the profit in the quarter. EBITDA margin decreased to 13% from 18% in last year's third quarter, driven by the lower volume. Actual SG&A spending was down by $700,000 or 17%, primarily due to lower volume-related spending, as well as the benefit from the restructuring activities that we initiated in the fourth quarter of last year. Net income decreased to $1.3 million, down from $4 million last year, or $0.13 per share, down from $0.39 last year.

Turning to slide 7, we're looking at the year-to-date results. They were impacted by the weakness in the energy markets. Sales in the first nine months were $67.7 million, down 31% compared with $97.7 million in the first nine months of last year. Year-to-date sales were 65% domestic and 35% international, compared with 64% and 36%, respectively, last year.

Year-to-date gross profit decreased to $18.7 million, down from $29 million last year, and gross margin declined 210 basis points to 27.6% this year. The decrease was driven by lower volume and the resulting lower absorption of costs. Year-to-date EBITDA margin was 14%, down from 18% in the first nine months last year. Net income decreased to $5.6 million from $10.6 million, or $0.56 per share, down from $1.04 per share last year.

Please turn to slide 8. We continued to have strong operating cash flow in the third quarter. For the first nine months of the year, we increased our cash position by nearly $13 million. Our cash position at the end of December was $73.2 million or nearly $7.50 per share for our outstanding 9.8 million shares.

In addition to increasing our cash position by $13 million, we've also returned $8.3 million to shareholders: 1) $5.9 million with the repurchasing of our stock, $2.5 million of which, as Jim mentioned, was done in this most recent quarter, and 2) $2.4 million in dividend payments. I want to mention our press release from yesterday where we have increased our quarterly dividend from $0.08 to $0.09 per share. This is the fourth increase that we've made in the last four years.

Our net working capital position at the end of December excluding cash was $7.1 million or 8% of annualized sales. For the past couple of quarters, we were running at a higher level than normal and we had expected and communicated ahead of time that we would get down to a more normalized level, which is where we're at right now.

With that, Jim would like to complete our presentation by discussing the market outlook as well as our full-year guidance and then we'll open the floor up for questions after that. Thank you.

James R. Lines: Thank you, Jeff. I now am referring to slide 10. Underlying orders, excluding the effect of cancellations that impacted the second and third quarters, have remained nominally $25 million in each of the past three quarters.

It is challenging, certainly, in the refining and chemical sectors. There is a scarcity of orders and those available are fiercely pursued. We cannot control our markets, but we are controlling well how we compete for available business. We are aggressively taking work to load our operations, but we aren't losing selling discipline.

There are some rough margin orders entering backlog and there are others that are more typical. The statistics I have indicate we are taking share and our success rate has increased. Our win rate of available dollars for large project work in refining and chemical markets has moved up about 20% compared to the past three years.

We aren't victims in this current tough marketplace. We are figuring out ways to win, advance share and come through this stronger.

Actions taken to improve our performance in the nuclear market are gaining traction. We brought new leadership into Energy Steel to drive that strategy, a new general manager, a new sales manager and several project management and engineering personnel have been brought into the business the past nine months. We are beginning to see backlog build and the pipeline diversify and improve in our nuclear sector. We had a solid level of nuclear market orders in our third quarter.

I am now on slide 11. We have a terrific book of business that is a healthy $113.2 million. Our diversification efforts are very apparent, with naval work being more than 40% of backlog and power at 15% of backlog. And of that 15%, roughly two-thirds is nuclear market backlog. Notwithstanding the harsh environment in our refining and chemical sectors, we are winning there and adding to backlog, plus our naval and nuclear market strategies continue to present exciting growth opportunities.

The strength in our backlog, solid cash generation from operations and available balance sheet capital enable us to maintain an offensive attitude and to take actions to reposition the Company for a different growth trajectory coming out at this downturn. We continue to bring talent into the Company and have an active M&A program, both of which support our goal of having a stronger business coming out of this market contraction.

On slide 12, please. Revenue guidance has been adjusted down to between $90 million and $95 million, due to third quarter sales. Gross margin and SG&A guidance are unchanged. Our effective tax rate has improved to 30% to 31%.

With that, I would ask Matt to please open the line for questions. Thank you.

Operator: [Operator Instructions] Our first question comes from the line of Joe Mondillo from Sidoti & Co. Please proceed with your question.

Joe Mondillo: Hi, guys. Good morning.

Jim Lines: Hi, Joe.

Jeffrey Glajch: Good morning, Joe.

Joe Mondillo: My first question is regarding the refining business. Could you give us your feeling on that market? I know a lot of the integrated companies are bringing down their CapEx budgets quite a bit, and I'm sure that's pressuring your business even further, but the refining space in general has been quite strong. I'm just wondering what your feelings are relative to that, as well as the maintenance schedules within the refining sector. Also, are there any further risks that you see of cancellations within your backlog?

Jim Lines: Thank you, Joe. In the refining sector, there are multiple drivers of demand. One, of course, is new capacity. New capacity generally is driven by state-owned refiners and the integrated refiners. Those two segments of our customer base move the needle appreciably. We have seen a dramatic pullback in spending on new capacity, and it's fair to expect that to remain contracted over the next 12 months. There may be a little work here or there, but it is materially different than it had been for the past several years. Once we saw the contraction take place, the spending pattern certainly changed abruptly.

Another driver is the category of maximizing the asset base of existing refiners. There is investment that we see there, and we categorize such investments as revamps, debottlenecking, capacity creep, and bottom of the barrel conversion, all trying to get more out of a barrel of crude oil. We see those investments as having some pullback as this industry has been cash constrained. However, we expect investment to occur to maximize the existing asset base. Currently, we are seeing that off a bit, but we're expecting to have that recover ahead of new capacity. We have some opportunities that are in the bid pipeline for this type of work. We've won this type of work in the past 12 months and we're expecting it to be fairly stable over the next 12 months.

The third driver in a large sense is the maintenance and aftermarket replacement parts. That has pulled back over the past 12 months. We've commented on that on previous conference calls. We've always considered it a discretionary decision, and that a pull back could span a couple of quarters. We don't believe that can be enduring or to have a long period of time that we'd have to deal with that. We are expecting the refining sector to get back to ordinary spending for its replacement parts, back to replacement-type orders that we've seen historically. That's been a very significant segment of our business.

Across the three key drivers, new capacity is down. Investing in existing assets, whether they are revamp, debottlenecking or parts and replacements, we believe that will start to move back towards normal over the next 12 to 24 months. Admittedly, though, this is a very harsh period of time and the reaction by state-owned refiners and integrated refiners is different from an independent refiner. However, the two key needle movers are state-owned refiners and integrated refiners.

Joe Mondillo: Okay. That's great color, Jim. Thanks. In terms of the backlog, do you see any further risk of cancellations potentially, or how do you feel about the backlog within refining?

Jim Lines: We feel okay. We always do a quality of backlog assessment, certainly no less than every quarter. As we look at our backlog and the way the backlog is moving, the two orders that were canceled in the second quarter and the third quarter, I would point out that we had noted in our 10-Q that we had a fairly large amount of orders that were on extended execution; those ultimately moved to cancellation. We have now about $10 million that we've noted in the upcoming 10-Q that's on extended conversion. However, we feel that's less at risk and we're beginning to see some movement on that order, most recently over the last couple of weeks. We have a firm commitment to get that order moving off of center.

We believe the worst is behind us. As our customers come out of their board meetings in January and February and they have a clearer outlook of spending over the next 12 months, I'll be able to comment on that more definitively. However, that is my view right now, absent of getting the direct feedback following board meetings by our customers.

Joe Mondillo: Okay. Great. Lastly, the bucket, if you will, that those cancellations fell into, I imagine it was either new capacity or maximizing existing capacity.

Jim Lines: Well that was the goal. One order was for improving existing assets of conversion of a barrel of oil, the other was new capacity in the oil sands. One was in the U.S., one was in Canada. The oil sands have had a very tough patch given where oil pricing is. That investment in new capacity has been unwound and represented a termination by our customer. The one in the U.S. was an upgrade, or an expansion, to improve bottom-of-the-barrel conversion.

Joe Mondillo: Okay. I just have a couple of questions on margin and I'll hop back in queue. The SG&A, it seems like the guidance is implying that, if you take the midpoint at least, it could be even under $3.7 million. I'm wondering how your outlook is regarding SG&A and, as you go into 2017, where you're feeling you're going to be relative to that.

Jim Lines: The SG&A in the third quarter was a bit lower than we would characterize as the normal run rate. There were some volume-related cost adjustments that were taken in the third quarter that aren't necessarily going to be there every quarter. We would expect more in the $4 million to $4.5 million per quarter SG&A, rather than $3.7 million that was experienced in the third quarter.

Joe Mondillo: Okay. If you hit the the low end of the revenue guidance to get the low end of SG&A guidance of 18% the $4.5 million would not fall into the 17% to 18%, is that correct?

Jim Lines: There's always a challenging mathematics problem in the fourth quarter with guidance. Even with a $5 million revenue range and you have ranges on gross margin and SG&A, it presents math challenges. But from an absolute perspective, the guidance that I mentioned a moment ago of between $4 million and $4.5 million is probably a more relevant expectation of the absolute spend.

Joe Mondillo: Okay. Thank you. Lastly, I want you to comment on the gross margin. The second half of the year here, we're looking like we're falling into a range of 22%, 23%. I know the third quarter was abnormally low. Even if you're closer to 24%, 25%, I'm wondering if you could characterize how you feel about those gross margins. Are they abnormally low for whatever reason in terms of a product mix? Or if we continue to see revenue where we've been seeing it in the low $20 millions, is there any reason, barring a huge turnaround in oil refining in which you carry higher margin, which seems unlikely in the near term at least, not to believe that gross margin around 24% is going to change over the next several quarters?

Jeffrey Glajch: Joe, I think that the range you're referring to, the 24% area, is probably a little on the light side in general as we look forward. Jim talked about the math challenges in the last quarter of the year, with the revenue guidance at a pretty broad range, depending on what revenue level you pick and what margin level you pick. Certainly, the margins are a little weaker right now. As Jim mentioned, we have a handful of challenging orders in the backlog right now, but we also have some good orders in the backlog. I think the very low margin level this quarter probably brought the average down. But looking forward, I would expect that this lower margin level going forward is probably a little on the light side.

Joe Mondillo: What are the drivers to being so light in the back half, other than just volume being down? Without assuming volume improves, just for hypothetical reasons, is there another driver or factor that's going to lift up those gross margins? Was it product mix and just the way the orders fell in the back half? The gross margins on those particular orders were light and so you assume that they bounce back, looking at the backlog that you have right now. Is that the main reason?

Jim Lines: The margin compression is principally due to volume and the under-absorption of our fixed costs. Secondarily, for growth we have been adding talent to the organization, principally into our nuclear strategy. We're expecting to see revenue growth in our nuclear strategy next year compared with the current fiscal year, but we're making those investments now to be able to effectively move that strategy upward and drive revenue growth. That is impacting, to an extent, margin in the quarter and therefore, we are projecting growth as we go through fiscal 2017. But if I had to summarize what's contracting the margin in second half of this year, it is volume.

Joe Mondillo: Okay. Okay. Thank you.

Jim Lines: You're welcome.

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

Chase Jacobson: Hi, guys. Good morning.

Jim Lines: Hi, Chase.

Jeffrey Glajch: Good morning, Chase.

Chase Jacobson: Nice job on the cancellation clause on those projects. It shows your insight into the markets, and you've always had pretty good insight. In terms of the bigger picture, taking the energy and power markets, the industrial markets in general, can you talk a little bit about where you think we are in this downturn? Are we at the bottom yet? How long do you think it takes to recover? Maybe give us your view as to where we are in this downturn.

Jim Lines: Sure. That's a great question. Before I answer that question, I just want to add an important comment that our preference will always be to finalize a contract. We wanted to ship those orders. We would've derived greater income from them. However, we do take action to protect ourselves because our most scarce resource is engineering and production and we safeguard that very deliberately. And when a cancellation happens, you expect to be paid. That's what you saw.

In terms of market outlook, in the whole perspective, not specific market perspective, as we look at the strength of our nuclear strategy and the strength of our naval strategy that counter the impact of where chemicals and refining are, we think we're moving off of the bottom. That's our perspective from an overall point of view, based on our planning premise and how our pipeline looks. The data's showing the nuclear strategy is going to be expanding and the naval strategy is going to be expanding over the next couple of years. That seems quite clear to us as we look at the data and the execution actions that have taken place.

That should provide some lift as we go forward. The question really centers around where business is and where our markets in refining and chemicals are, and that's all very difficult to predict. We don't actually know. I'm not going to profess that we know. What I can say is we are fighting aggressively to win in this contraction, to not lose share and also to not lose price discipline and actually expand our share. We are also looking to move into different markets either geographically or in terms of end user markets where it's appropriate to do so in our core areas and get through this a different Graham with a different growth trajectory. We feel we have a rough patch still ahead of us. And our refining and chemicals markets and it's going to be countered by the strength of our naval and nuclear strategies over the next two years.

Chase Jacobson: Okay.

Jim Lines: I don't know if that answers your question, but that's our view.

Chase Jacobson: No, it's helpful. The second question is, I noticed two things regarding the orders this quarter. Positively, you had strength in power and you had better international awards than you did the last few quarters. Are those related? Is that China nuclear? Is that the revitalization of Energy Steel? Or, if they're not related, can you give more color on what drove those?

Jim Lines: Sure. The improvement in the power bookings is tied directly to our strategies and investments to get Energy Steel and our nuclear segment strategy moving in the right direction. We're seeing traction in those initiatives now as evidenced by backlog building. The leading indicator for us is the diversity and the size of our bidding pipeline in that segment of our business and the fact that we brought in the right resources to help us realize the strategy there – new general manager, new sales manager. The general manager has lived his whole life in the nuclear space, and he's about my age so he's had about 30, 35 years in that sector. Project management and engineering management have been brought in over the last nine months and have also lived in the nuclear market. They've come from the utility industry or the naval nuclear propulsion program. These are some very strong performers that are helping us with our execution strategies and our market access strategies, and we feel very positive about where that strategy is and that it should be growing.

On the international side, don't read too much into that, that's somewhat situational. Orders were available and we won them. We don't see a robust international pipeline right in front of us. However, with what's there, we're aggressively going after and trying to figure out a way to win and try to figure out a way to drive our costs down so we can work within the market price.

It is a buyer's market. They're hammering the supply chain, it's a fairly brutal pricing environment depending upon the geographic location and end user market, but we're finding pockets of how to win and we have a wide array of margin work coming into our backlog, some fine, some rough. But that's what happens at the bottom of cycle. We're more focused on asset utilization, protecting our share and crushing the competition where we can.

Chase Jacobson: Okay. Jeff, I think you probably know what I'm going to ask you, but where are you in the acquisition process? Any update as to what's going on there, you have over $7 per share in cash now?

Jeffrey Glajch: We do, Chase. We're certainly more active today than we have been in a while, and we are continuing to look at a lot of opportunities both in our core markets, but more importantly in some diversified markets. We're starting to see a little bit of movement on price, which is a good thing, too. I assure you that the activity level is high. But high activity level that ultimately results in a closed deal isn't a sure thing, it's a higher probability that we are successful at some point in the future.

Jim Lines: Jeff, perhaps we can provide some specificity on the type of products or the type of markets we're actively involved in deal flow with.

Jeffrey Glajch: Sure. On the diversification side, we're looking at opportunities to further enhance our nuclear business. We're looking at opportunities to further enhance our defense business. We're looking at opportunities in ancillary markets that are closely related to the markets we currently play in. Quite frankly, we're also looking at opportunities in our core markets, given the weakness in the core markets.

Currently, there are some opportunities to find someone who is either physically tired or financially tired of being in what is now a weak market. There are always more opportunities around the bottom of the market cycle. We are actively looking at all of those areas.

Chase Jacobson: I appreciate the color, guys. Thank you very much.

Jim Lines: Thanks, Chase.

Operator: The next question comes from the line of Ryan Levenson from Privet. Please proceed with your question.

Ryan Levenson: Hey guys, how are you?

Jim Lines: Hey, Ryan.

Jeffrey Glajh: Hi, Ryan.

Ryan Levenson: Just trying to triangulate a couple of things here. $113 million of backlog, 45% to 50% of it's going to work off in the next 12 months. Is the $10 million of extended execution in that, say roughly $55 million of backlog?

Jim Lines: We've modeled in some conversion of that in fiscal 2017. We feel with the information and the communication flow coming from that particular customer, that that is a prudent judgment at this point in time.

Ryan Levenson: Okay. But the $10 million is carved out of that $55 million?

Jim Lines: I may not have answered it the way you phrased it. In the conversion that's planned for the next 12 months, a piece of that $10 million is modeled in.

Ryan Levenson: Okay. In your prepared remarks, there was a comment that you have some rough margin orders entering backlog, and somewhere along the line in the Q&A, you also commented on a couple of contracts. I was just wondering, if you could be more specific regarding the magnitude of these contracts. Of the roughly $55 million that's going to convert in the next 12 months, what do these rough orders account for and, relative to historical margin, what are the gross margins looking like?

Jim Lines: We look at it as a basket of backlog margin. The margin on average is consistent. When we take the good and the rough ones, it's blending into a fairly consistent level basket of backlog.

As we have a low volume, high mix business, we have orders that can have 10% or below gross margin, and we have orders that can have 40% gross margin. There is a wide range and there can be an aberration where we have a strategic need to defend a particular customer or defend a particular market where there might be no gross margin.

However, when we look at it on a variable cost basis, it's incremental at the operating profit line, and that's what is most important to us. We do look at these situationally and we do protect our turf, and we're more inclined to load our assets rather than chase quality right now because there's such a scarcity of business available.

Ryan Levenson: I understand directionally what you're saying, I'm trying to get to an order of magnitude of the piece of your backlog that's going to roll off in the next 12 months. What's the blended margin on that?

Jim Lines: I believe I answered that. It's consistent with what it had been on average.

Ryan Levenson: On average, okay.

Jim Lines: Basket of backlog, on average, is no different.

Ryan Levenson: All right. I'm just curious as to why you're noting these particular contracts. Is it that those are all front-end loaded and then so we're going to see a quarter that has more of an impact from that? If it's the same, I'm just curious as to why it was noted like that if the average is the same?

Jim Lines: Let me try to connect the important considerations here. As we look at the next wave of chemical investment in North America, it's dominated by international end users different than what the first wave looked like. An international end user has a broader supply chain. They have a different view on price versus quality, and we're beginning to see some of that work come into our backlog now. They have a different price point and there could be more of that as we go forward. If you look at the composition of the next wave of ethylene production capacity as an example, you'll see it's dominated by international players. They'll bring in an Asian supply chain, they'll bring in an Eastern European supply chain, and that has an impact of potentially crushing margin. So if that becomes a greater mix of the business, then we might see an averaging down of the margin. I didn't connect the dots well, but that's what that foretells.

Ryan Levenson: Okay. I think I follow you. That was all I had. Thank you.

Operator: Our next question comes from the line of John Bair from Ascend Wealth Advisors. Please proceed with your question.

John Bair: Thank you. Good morning, Jim and Jeff. How are you?

Jim Lines: Good.

Jeffrey Glajch: Doing fine, John, how are you?

John Bair: Good. I've got three questions. First of all, I commend you on pretty good stock buyback pricing, and I'm wondering if so far this year you've been actively in the market buying additional shares back?

Jim Lines: John, obviously we reported what we've done through the end of December. We normally don't inter-quarter comment on that, other than to say that our program is still active.

John Bair: Okay. Secondly, in a general sense, what impact do you think the lifting of the crude export ban will have in shifting the focus of shipping product refined here in the U.S., to exports globally to actually just shipping the unrefined crude out there? In other words, do you think that's going to have an impact on domestic refining activities and expansions or upgrades of existing domestic refining complexes?

Jim Lines: Sure. The thesis we have has two phases to it. The initial reaction we're seeing in the industry to the lifting of the export ban is that the shale-related crude oils, the low sulfur content, easy to process crude oils are being exported because the North American refining base has already been invested into being able to process heavy sour crudes. They don't process well, the light sweet crudes that come out of the the shale oils. We're seeing that being shipped over to two other regions. That's more of an immediate effect of that as refiners are not equipped to process Bakken or Eagle Ford shale-type crudes efficiently.

Longer term, though, with the U.S. being able to ship refined products to international markets, I do think it's towards investment in the asset base here with capacity increases, debottlenecking, ground fuel investments that have been the lifeline of Graham for the last four years in the refining sector in the North American market.

I'm pretty optimistic about it longer term. I think the immediate reaction to it is, ship the crude oil that can't be processed efficiently right now to the export markets. Longer term, investments will be made here, is our view. That's the thesis we have.

John Bair: Okay. This is kind of a new development, I guess, with the lifting of the Iranian embargo. Can you comment at all what your sense of their domestic refining capacity is and how much upgrade might be there? Can you give a sense as to what potential market opportunities might be there?

Jim Lines: It's quite immense. We had a very rich installed base in the Iranian refining and petrochemical sector, when we could trade with them. What's disappointing is that the European suppliers are moving more quickly than the U.S.-based suppliers based on the actions their governments are taking. I'm hoping we come to the table and have a chance to play, but our nation seems to be moving a bit more slowly. I can tell you though, the Iranian market, they have money to invest. It's not quite like Saudi Arabia but it's not too far behind. I want to play in that if we can as a U.S.-based company. But I fear we might be a little bit behind.

John Bair: Is there any way to partner up with any of those European companies to get a jump on it? Not necessarily you're direct competitors, but for example, I think I saw something about Total S.A. working out some kind of an arrangement. They were going to invest money in the Iranian markets.

Jim Lines: Right. It's a little more precarious for us. Total S.A. is French. We are U.S. and we have to operate under the U.S. trade restrictions. It's complicated. We will certainly try to find a way to win. It's not as straightforward as I would like it to be at this point in time. We're all hearing the political pundits say that the Europeans are moving more quickly to secure this type of business. But we do have a very rich installed base and refineries in Iran and ethylene plants and ammonia plants and petrochemical facilities throughout Iran, and we want a piece of that work.

John Bair: Yeah. Fair enough. Last question, in December I saw an article that Pemex announced a $23 billion CapEx plan, some of which was addressed toward development of clean fuels. My question is twofold, number one, obviously I'm sure you've got a pulse on all that, on what they're planning on doing. Are you able to comment on that push towards the clean fuel aspect and what your involvement in that is?

Jim Lines: Sure.

John Bair: Not necessarily just with Pemex, but as a general question.

Jim Lines: With respect to investment in Latin American refining assets for clean fuels or feedstock diversification, that's a fairly active bidding area for us. But I'm going to be candid, we've been chasing these opportunities for three, four, five years. The announcement that you cited around Pemex which cites Salina Cruz, Cadereyta, Tula, Madero refining projects, we've been chasing all those projects since probably before this decade. We're hopeful they materialize.

I can tell you, our folks are all over it. The timing of it is very difficult to identify and that's not just with Pemex, but it's throughout Latin America. I can tell you, though, we've identified the projects, our folks have been on it for multiple years, and we've continued to watch those projects and be hopeful that we can win some of it.

John Bair: Very good. Thanks very much.

Jim Lines: You're welcome.

Operator: Okay. It appears there are no further questions at this time. Management, would you like to make any closing remarks.

James R. Lines: Thank you, Matt. We just appreciate your time today for our third quarter conference call and the Q&A session that we had. We look forward to updating you, which won't be until May when we have our fourth quarter results. Thank you very much. And as always, Jeff and I are always accessible for one-on-one conversations. Feel free to reach out to us. Thank you.

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