Operator: Greetings and welcome to Graham Corporation's Third Quarter Fiscal Year 2018 Financial Results conference call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] And as a reminder, this conference is being recorded.

I'd now like to turn the conference over to Deborah Pawlowski, Investor Relations for Graham Corporation. Thank you, please go ahead.

Deborah Pawlowski: Thank you, Brenda, and good morning, everyone. We appreciate your joining us today to discuss the results of Graham's fiscal 2018 third quarter and year-to-date results. We certainly appreciate your time. You should have a copy of the news release that was distributed across the wires this morning detailing Graham's results. We also have slides associated, with commentary that we're providing here today. If you don't have the release or slides, you can find them on 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 first nine months of the fiscal year, 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. Those documents can be found on our website or at sec.gov.

I also want to point out that during today's call, we will discuss some non-GAAP financial measures which we believe are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliations of comparable GAAP to non-GAAP measures in the tables accompanying today's earnings release.

And with that, it is my pleasure to turn the call over to Jim to begin. Jim?

Jim Lines: Thank you, Deb. Welcome to our third quarter conference call. I am beginning my prepared remarks on slide 3. Orders in the quarter were $40.5 million. We haven't had a new orders quarter this strong, that was driven principally by our traditional crude oil refining and chemicals markets, since the second quarter of fiscal 2014. We did have a stronger quarter in the fourth quarter of fiscal 2015; however, that was due to our large order for the U.S. Navy. This order level in the third quarter led to backlog growth, with our backlog at quarter end at $96.2 million. It is uplifting to have backlog growth tied to our traditional end markets that then provides a solid foundation as we enter into fiscal 2019 on April 1.

Revenue in the quarter reflected us continuing to work through cycle bottom backlog conversion. Revenue for the quarter was $17.3 million, down 24% compared with one year earlier. We judge that the second, third, and the fourth quarters of fiscal 2018 will represent cycle bottom results.

In the quarter, there was an $11.6 million net loss that corresponded to a $1.19 per share loss. The loss is due to impairment charges for our nuclear market business and the Energy Steel acquisition from 2010. The current outlook for that business is dramatically less than the acquisition basis due to projected spending by this market, the Energy Steel brand relative to certain larger competitors and our recent inability to expand share in such a severely contracted market. Excluding the impairment charges the quarter was breakeven, compared with $0.19 per share earnings a year earlier.

Fiscal 2018 top line guidance is narrowed to ~$75 million.

Please move to slide 4. Revenue in the quarter was comparable to our second quarter and was down $5.4 million from the same period last year. Sales into our key end markets all were down with Refining industry sales down 14%, Chemical industry sales off 2%, Power sales down 61%, and sales to our other markets, including Defense, down 22%.

Domestic sales were 65% of total sales and they were down $11.3 million compared with last year. International sales in the quarter increased to $6 million. It is worth reiterating that fiscal 2018 second, third and the fourth quarters should be our cycle bottom.

That concludes my opening high level commentary. I wish to pass it over to Jeff for more detail on the quarter results. Jeff?

Jeff Glajch: Thank you, Jim, and good morning, everyone. If I could have you turn to slide 6, as Jim mentioned, we had a few significant one-time items in the third quarter. I'd like to provide some color on all of them. The largest item was the impairment of our commercial nuclear power business. This business was purchased seven years ago, in December 2010. While we enjoyed strong earnings for a number of years, the past few years have been more challenging. The commercial nuclear market has seen significant weakening in demand for capital, with operating plants tightening their spending in response to lower energy costs from other sources such as natural gas.

The bankruptcy of Westinghouse and the subsequent decision of SCANA to stop the construction of two of the four new nuclear reactors being built in the United States contributed further to the weakening of the market. The accumulation of all these items has led us to book this impairment. We will continue with this business and look to stabilize it, and have been and will continue to seek new opportunities in both North America and abroad.

We did see better order levels in the nuclear market in the third quarter, but one quarter does not set a trend. The impairment itself was a pre-tax write-down of $14.8 million with a $1.9 million book tax benefit for a net after tax write-down of $12.9 million. The specifics of the pre-tax write-down were $9.1 million of specific intangible assets and $5.7 million of goodwill. We now have $5.2 million of intangibles and $1.2 million of goodwill remaining on our balance sheet as of December 31, 2017. So, we wrote down a little over 60% of the intangibles, as well as over 80% of the goodwill.

Without getting into too much minutia, I would like to explain the rules of purchase accounting required of companies such as ours, where we were required to gross up our balance sheet to record a deferred tax liability at the time of the acquisition, related to the intangible assets and add the same amount on the asset side to goodwill. We did this seven years ago, and added nearly $6 million above the purchase price to both deferred tax liability and goodwill to meet this accounting requirement. Much of the goodwill related to this accounting treatment has now been written down.

Along with the $12.9 million after tax charge for this impairment, we also recognized a few other items in the quarter. We booked a charge of approximately $200,000 for some other items related to the nuclear business, primarily bad debts related to Westinghouse and the Summer South Carolina plant.

We also booked a $2 million gain directly related to the aforementioned purchase accounting deferred tax liability, which was due to the lowering of U.S. corporate tax rates from 35% to 21% from the tax law, which was passed in December of 2017.

Sequentially, we booked this gain first, followed by the impairment. Had we done the reverse, the tax benefit on the impairment would have been larger. We also booked tax charges unrelated to our nuclear business, but related to the new tax laws, $459,000 to revalue deferred tax assets and $137,000 related to the one-time transition tax on accumulated foreign earnings. This last item, the $137,000 charge, is what many are referring to as the repatriation tax.

I know this is a lot of information, so let me summarize it. On an after tax basis, we booked the following. First, related to our commercial nuclear business, a $12.9 million impairment charge, $200,000 charge related to bad debts in the nuclear business and a $2 million tax gain related to the new tax law. In aggregate, the total for the nuclear business was a charge of $11 million.

In addition, related to the new tax law, but not related to the nuclear business, was a charge of $600,000. So in total, we booked $11.6 million of one-time charges in the quarter. Excluding all these one-time items, our ongoing operating business, as Jim mentioned, was breakeven for the quarter. I would like to now briefly walk through the quarter and year-to-date results of the ongoing operating business.

If you can move to slide 7, sales in the third quarter were $17.3 million, down from $22.7 million in the third quarter last year. The sales were 65% domestic, 35% international. In last year's third quarter, the split was 77% domestic, 23% international. Domestic sales decreased 35% to $11.3 million, while international sales increased 15% to $6 million.

Gross profit decreased to $3.6 million from $6.3 million last year, primarily due to the lower volume, as well as that we are working through a few rough orders that were booked in fiscal 2017. Gross margin dropped to 20.7% from 27.8% last year.

The adjusted EBITDA margins decreased to 2% from 14% in last year's third quarter driven by the low gross profit margins. As we mentioned before, adjusted net income was breakeven.

If you can move to slide 8, sales in the first three quarters of fiscal 2018 were $55.4 million, down when compared with $66.1 million in the first three quarters of last year.

Year-to-date sales were 67% domestic, 33% international, compared with 74% and 26%, respectively, last year. Domestic sales decreased 24% to $37.3 million compared with $49.2 million last year. International sales were up 7% to $18.1 million from $16.9 million last year.

Year to date gross profit was $12.3 million, down from $15.4 million last year, and year-to-date adjusted EBITDA margins were 5%, down from 10% in the first nine months of last year. Adjusted net income was $1.2 million, down from $3.7 million, or $0.12 per share, down from $0.38 per share last year.

As Jim mentioned earlier, the past two quarters have been pretty rough and we expect Q4 to also be quite challenging. However, we believe these three quarters are the bottom of the downturn and based on our strong order levels, especially in the third quarter in our core markets, plus our improving pipeline, we expect fiscal 2019 to be noticeably better than where we have been these past three quarters.

If you could move on to slide 9, we have positive operating cash flow in the first nine months, of $3.9 million. We paid two-thirds of this or $2.6 million to our shareholders in dividends. Our cash balance is up to $74.2 million, higher by $700,000 than at the end of fiscal 2017. We continue to be focused on our expanding acquisition pipeline and hope to be able to utilize some of our cash to grow inorganically via acquisition.

Finally, capital spending has once again been very light this year at only $500,000 compared with $200,000 in the first three quarters of last year. We still expect to spend $1.5 million to $2.5 million in capital for the full fiscal year. The reason for the large range in the fourth quarter is that we have a couple of significant projects which are in the process of being built and the timing of those cash outlays may fall into the fourth quarter, or could slip into the first quarter of fiscal 2019. With that, Jim will complete our presentation by discussing the market situation, outlook and our full-year guidance.

Jim Lines: Thank you, Jeff. Please turn your attention to slide 11. Orders in the third quarter were dramatically higher than any of the past six quarters. We secured five large oil refining orders in the third quarter that totaled approximately $25 million, where each is for a revamp or replacement of existing equipment, and not for new capacity.

Total orders in the quarter for oil refining markets were $27.6 million. Chemical industry orders were down $700,000, Power orders up $1.7 million and orders from our other markets were up about $0.5 million.

This strong order level in the quarter implies early signs of improvement in our traditional end markets. However, we do remain cautious and uncertain about conversion timeline of our bid pipeline.

And now on to slide 12. Backlog is a healthy $96.2 million, approximately half of backlog on December 31 is for the U.S. Navy, 35% is for the oil refining market, the remainder is for Chemical, Power and other end markets.

Backlog conversion is 55% to 60% that will convert across the next 12 months, 5% to 10% in year two and 25% to 35% converts beyond two years from now. The Navy backlog with its predictable and long conversion cycle provides stable production and asset utilization levels, which is very favorable.

Moving on to slide 13, we've narrowed our 2018 top line guidance to approximately $75 million of revenue. Gross margin is expected to be between 21% and 22%, SG&A between $15 million and $15.5 million and the full year effective tax rate between 24% and 26%.

Brenda, we ask you to open the line now for questions. Thank you.

Operator: [Operator Instructions] Our first question comes from the line of Joe Mondillo with Sidoti & Company. Please go ahead with your questions.

Joe Mondillo: Hi, Jim and Jeff. How are you doing?

Jeff Glajch: Good morning, Joe.

Jim Lines: Good morning, Joe

Joe Mondillo: Beyond these large orders that you received in the quarter, could you talk about your quoting and bidding activity, what you're seeing on a broad basis.

Jim Lines: We still remain very busy in the proposal area and in the quoting area, along with selling activity, which doesn't necessarily mean we're selling for projects that are coming to fruition with a purchase order being placed surely. We do a lot of concept work, budget work, early FEED project work. What I can say, more on a qualitative level, we're very busy and we are seeing some signs of the bid pipeline moving closer to purchase. In the refining sector, we still see in North America some additional work for installed base revamp and replacement, which has always been very desirable for us, because we have a rich installed base and we tend to have a high success rate with those types of projects. And also, the refinery market in general, and in comparison to some of the other markets we serve, has a higher margin potential. So that provides some perspective on a positive direction for improvement in margins and financial performance for the business whilst reflecting improved top line and stronger margins coming into the backlog, so we are very busy.

Joe Mondillo: So, in terms of the volume of quoting and bidding activity, you've noticed an increase in overall activity, whether it's translated into orders or not, you've noticed an increase in there?

Jim Lines: I would say yes. Not necessarily, to be clear, in absolute dollars, but the churn in our proposal area and with our sales folks. I do like the bid churn, because that tends to suggest something is going on. We are seeing a lot of rework and iterations within our proposal group on given projects, which again implies project sponsors and the end users are focused on moving those projects toward completion. So that's all very encouraging and that's how we watch the quality and the direction of our pipeline begin to improve and take shape toward a true recovery. So we are seeing some of those signs, Joe, but I do want to be clear that strong third quarter order level do not necessarily set up to the same expectation in Q4 or Q1FY19 as we look at it right now, but we are encouraged directionally. And one other comment with respect to the $40 million that was booked in the third quarter, one of the refining projects had an exceptionally expensive alloy material, which was one of a kind. If we normalized the material content, the order level probably would have been about between $7 million and $10 million less for the quarter. So I do want to be transparent about that.

Joe Mondillo: $7 million to $10 million less?

Jim Lines: Yes.

Joe Mondillo: Okay. 12-month backlog is the highest in a few quarters; where is that coming from? Is that refining or elsewhere?

Jim Lines: We picked up some additional Navy work in the quarter, in the eight digits, so we did pick up some additional Naval work, which is our beyond 12 months.

Jeff Glajch: Joe, most of what's in that 12 months and beyond, most of it is Naval work

Joe Mondillo: Okay. Yeah, I realize that, I was just wondering in terms of the incremental that you picked up in the quarter, so that's more Navy work. In terms of the orders that you – these large orders that you book within the quarter and order trends overall and the environment, how is pricing, specifically relative to the gross margins that you've been seeing in this quarter and recently, is it pretty competitive on a pricing standpoint?

Jim Lines: Comparing to the margins that are running through backlog and then our financial statements, what's being added into backlog with new orders is superior. And not incrementally superior, it's far better than what's running through revenue now.

Joe Mondillo: Okay. That's good to hear. And then regarding the chemical processing business, the orders continue to remain, while backlog continues to decline to pretty low levels. But I've heard that activity may be improving, so what are you guys hearing in terms of that part of your business?

Jim Lines: When we look at the bidding activity and what's projected to close in the near term, there are a number of nice chem, petrochem projects for North America that seem to be teed up to close in the near term, near term being Q4 or Q1. So, I would expect to see an improvement in the backlog related to the chemical industry as we get through Q4 and into Q1.

Joe Mondillo: Okay. And anything interesting regarding those orders that you received in the refining business, interesting or unique, they were very big in size, anything more that you could tell us regarding those?

Jim Lines: They are interesting in that, again, they were from the installed base and we've commented over the last several quarters that we felt work first would come from the installed base as the refiners try to maximize the assets that they have and they're prepared to make investments to get more return from their physical plant.

What we did see as characteristic here with these, almost each of the five orders that we've mentioned, the $25 million, four of the five were on a very accelerated pace, once the client decided they were a green light, it all came together in very quick order that they needed to place an order with a very accelerated schedule in some cases. So that's what's setting up for a very healthy first half of fiscal 2019, because with those orders our customers want the equipment quickly.

Joe Mondillo: Okay. And then lastly, just wondering if you could update us on the balance sheet and your M&A strategy?

Jeff Glajch: Sure, Joe. As you know and as we've talked about in the past, we have been expanding the breadth of opportunities of markets that we're looking toward, and we're pleased with what we see in our pipeline. We're obviously fighting against some expensive dollars out there where people perhaps are overvaluing, from our perspective of some potential candidates, so that's always a challenge and certainly, with lower tax rates, they may do even more of that.

So we continue to be happy with what we're seeing as the opportunities and we just need to work down to find that right fit and if we find it, we will execute on it as quickly as we can. But we want to use that cash, there is no question, the strategic direction of our company, of the management team and of our board of directors is to use that cash to grow inorganically.

Joe Mondillo: Okay. Great. Thanks a lot. Appreciate, it guys.

Jeff Glajch: Thanks, Joe.

Jim Lines: You're welcome, Joe.

Operator: Thank you. Our next questions come from the line of John Blair with Ascend Wealth Advisors. Please, go ahead with your questions.

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

Jeff Glajch: Good, John.

Jim Lines: Doing great, John.

John Baer: Good. Good. The Saudi Aramco IPO is pretty much out there and looks like they're trying to push that forward. But I've been seeing some recent narrative or indications that the focus for Saudi Arabia may be more to expand their downstream activities to be more competitive in the export market vis-à-vis the U.S. exports out of the Gulf Coast. So, my question is whether or not you're seeing any bidding or quoting activity? If that's an accurate narrative, are you seeing anything in that regard that would suggest that they actually are focusing more on expanding that downstream aspect?

Jim Lines: Sure, John. The directional shift is to monetize more fully their natural assets, or their crude oil, rather than just be a provider of crude oil. I would say over the last decade, we've begun to see a very strong investment program by Saudi Aramco, which is in the oil refining sector, and SABIC, which is in the petrochemical sector, to take more advantage of downstream investments.

So, we've enjoyed a fair amount of order activity over the last decade that was for that type of activity. We have bidding work now for some Aramco joint venture projects in North America, fairly sizable, that we expect to see come to fruition across calendar 2018 for the EPC, whether or not the EPC places orders for our type of equipment in that timeframe, we're not certain yet. But indeed, we are seeing them stay committed to actualizing a stronger return on downstream investments rather than just be so reliant upon the price of oil, and we've seen that over the last decade actually.

John Baer: But you're not seeing any evidence that there is any meaningful uptick in plans aside from them trying to get this thing dressed up for coming out on the market? New capacity expansion, I guess is what I'm getting at. It seems like they're trying to focus away from internally using as much using crude oil, say for their own power needs and so forth and looking at other alternatives, but focus more on using their production to refine and export particularly in Southeast Asia?

Jim Lines: No. I would say, maybe I didn't answer the question well, there is a very large project in the U.S. Gulf Coast, a joint venture project that we have been bidding on and I said, that's an EPC bid now. The EPC contractors should see that shortly and then hopefully equipment will be bought shortly thereafter. That's a massive refining ethylene cracker and downstream derivative plant. There is a host of bids that we have going on there. And the next wave of investment in Saudi itself, we're seeing some signs of that beginning to percolate. So all total, we look at it as a confluence of the different bids we have and everything we're hearing. We think they plan to actualize and fulfill that agenda of stronger monetization of the natural resources with downstream investment. That's happening.

John Baer: Okay. That's what I was kind of hoping to hear. Can you shed any light or give us any color on activities in South America? In general there, are you seeing any pickup in activity down there?

Jim Lines: No. We haven't seen a pickup in activity in South America. They're suffering with the price of oil being where it's at and how it affects their economy as a whole. We are still investing and the missionary work, if you will, of time and territories staying close to those refiners and chemical companies that we'll invest over time. But I can say, we don't see much right in the windshield right now. It's more longer term.

John Baer: And have you had any exposure? I'm sure not anything meaningful because nothing has come out to this extent, but with regards to the turmoil in Venezuela, everybody seems to be pulling back there and it's going to be interesting to see what eventually comes of that.

Jim Lines: No. We haven't had exposure per se, but let me tell you how we handle that as we have had some work in recent years, even during this downturn that is for some Latin American companies that are economically challenged, the credit terms that we extend and the way in which we will execute an order and remain cash flow neutral or positive to mitigate risk. There is a willingness at times for the end user to proceed on that basis, because they need to keep their assets up and running. So we will step in. We will help them. We will show collaborative support to them. However, we have pretty strong credit controls and mitigate risk around timely payment. So we do lean in and we do help, because they don't forget that and we will do that again, but we'll look to mitigate credit risk along the way.

John Baer: And along those lines, are you seeing any indication like next door neighbor Colombia, are they picking up any activity there? I mean, are there some areas that are trying to fill that regional gap at all in activity?

Jim Lines: Colombia just started up one or two years ago, their Reficar project, which was a new grassroots refinery in Cartagena that was a pretty massive investment. We do work with Ecopetrol regularly. We do expect every year to get a little bit of repair, revamp, replacement work from Ecopetrol. We don't see much difference there, but we're not envisioning and certainly, in our bid pipeline, we're not seeing any grassroots activity, new capacity activity in Latin America that we think is going to go ahead in the near term.

John Baer: Okay. One last quick one. Anything regarding Mexico, given there's a lot of headline issues there with NAFTA and so forth, but some recent activities in their Gulf of Mexico area, offshore there, some new discoveries, and whether they're going to bring that in and try to revamp some of their dilapidated infrastructure as well? See any positives there?

Jim Lines: We're not seeing any positives necessarily and again, this is a time stamp of right in front of us. Let me just talk a little bit about what transpired. As we were coming into calendars 2012, 2013, 2014, we had an immense bid pipeline for Latin America, including Mexico and south, massive, around rehabilitation of the refineries, revamps, some grassroots work in the range of $30 million or $40 million worth of bidding activity. That came to a halt with the reset in oil and how oil affects those economies. However, that agenda to modernize, to revamp, to get their refinery's petrochemical assets running on world-scale levels, that still is the agenda. What's unclear to us is the time line, but we were poised and we were very excited about the amount of investment that was planned to happen for Latin America. But that now has gone to a major push to the right in terms of the calendar and we don't see much of that going ahead in the next one or two years.

John Baer: Okay. Thank you very much. And good luck as the year unfolds.

Jim Lines: Thank you, John.

John Baer: Thanks.

Operator: Thank you. And our next questions come from the line of John Sturges with Oppenheimer. Please go ahead with your questions.

John Sturges: Thank you for taking my question. I'm looking at some major macro trends; one is the reduction of regulations in the last 12 months and at the same time, we're seeing the dollar weaken, which improves the international bidding situation. Can you – and I know there's a delay as to how this may hit your business, could you discuss some of the color? Are you seeing the impact from this? It just sounds like you've hit the fulcrum point for your business lows in this particular cycle. And I'm just wondering if there was an impact from either of these two that you can identify?

Jim Lines: I can't correlate what we're seeing to what you cited in terms of a weakening dollar or the improved economic trends. That certainly is suggestive of the need for investment, but we haven't correlated that to the weakening of the dollar. But we are beginning to see some Asian work come into our bid pipeline.

We think there's some Middle Eastern work coming into our pipeline. And currently in our pipeline, North America seems to be coming out of its two or three years of lack of investment in the refining infrastructure, getting back to normal or perhaps doing a little bit of catch-up.

I don't want to overstate that they're moving toward a catch-up, but we are seeing more vibrancy in the North American refining market than we had in the previous couple of years.

John Sturges: Okay. Are you seeing anything with the reduction regulations allowing projects to move forward a little quicker domestically?

Jim Lines: I haven't. We mainly lament among ourselves of how slow these projects move.

John Sturges: Right.

Jim Lines: We haven't seen any change there.

John Sturges: Okay.

Jim Lines: Unfortunately.

John Sturges: But that may yet be ahead.

Jim Lines: That may yet be ahead.

John Sturges: Okay.

Jim Lines: Trying to pull them forward, but we don't have that power.

John Sturges: Got it. Thank you.

Jim Lines: You are welcome.

Operator: Our next questions come from the line of Chris McCampbell with Hilltop. Please go ahead with your questions.

Chris McCampbell: Good morning, guys. Congrats on riding out the cycle one more time. My question has to do with the cash balance, as you have seen, probably, a number of the companies that you have an interest in, their valuations also coming off cycle bottoms. It seems less and less likely that we're going to get something done on an acquisition side and I'm just wondering what Plan B would be for the cash and whether or not there is any time constraint on whether or not you buy somebody or you don't?

Jeff Glajch: Chris, this is Jeff. I would disagree slightly with you that it's less and less likely that we'll buy somebody. I think given where our pipeline is, certainly, vis-à-vis where it was say a year ago, there's more in there today and there's more opportunity than was there a year ago. I understand the concern about pricing and we're very sensitive to that, but where we play within the acquisition arena, particularly with the smaller private companies, I think there are certainly opportunities that are out there at a reasonable pricing level.

To your second question around timing, we don't have a clock on it per se. We're certainly not going to make an acquisition just to make one. But over a longer period of time when we continue to look at different options for our cash, should we not make an acquisition, of course, we will be. That's an important role of management and the board and we will continue to look at that. But right now, there is enough in the pipeline that we think that there is a good opportunity that something can get done.

Jim Lines: I just want to piggyback a bit on what Jeff had said around capital deployment. Every quarterly board meeting, this is a focal area. And as we go through our prospect pipeline of opportunities and their size and the timing of the deal and the potential use of our capital, our board is clearly focused on putting that capital to work. As Jeff said, there's not a stopwatch that it has to be done by X. But I can share with you that every quarter, our board and management is talking about the best way to serve the shareholder around capital deployment. So, it is a constant discussion.

Chris McCampbell: Do you guys know what's going to happen if you're right about the cycle in regards to cash flow. I mean, I think your last investment with capacity was such that, I would think you would agree that the likelihood of needing that capital to increase capacity is probably pretty low. So, I mean, is there even a number that you guys consider as being necessary to maintain and that there be another number that theoretically could be either spun back to shareholders as a special dividend? Or I mean, I know the trading in the stock is such that it's virtually impossible for you guys to buy stock back. You've got an $0.80 spread between the bid and the ask right now. So, I guess any other color besides what you've already said?

Jim Lines: I don't want to get too granular. The only other comment that I would like to make unless Jeff wishes to add further color is, in our discussions and our deliberations with our board, we look at an amount of capital that's necessary for the ongoing operation of the business and future internal investments and then we have a large bucket that's for strategic and other capital deployment purposes. And we're talking about that large bucket every quarter and there's clear focus on putting it to work or what else might we do with it.

Chris McCampbell: Okay. Well, thanks again guys. I appreciate how well you've all managed through this cycle.

Jeff Glajch: Thanks, Chris.

Jim Lines: Thank you, Chris.

Operator: Thank you. And our next questions come from the line of Tom McLean with The McLean Group. Please, go ahead with your questions.

Tom McLean: Good morning.

Jim Lines: Good morning, Tom.

Tom McLean: With the downturn in the nuclear industry in the United States and it's due to a number of reasons that you already stated, but with the international nuclear industry expanding in China and over in the UAE and Saudi Arabia, I've just read where they've got plans for 20 to 25 reactors over there to get their dependency off fossil. Are there any efforts to penetrate that market and considering that a lot of your work at energy still is nuclear power plants, are you considering maybe looking at the fossil plant market since many of products are used in that industry also? Thank you.

Jim Lines: This is Jim. So with respect to the international markets, let me step through them a little bit. We have won some work for the China nuclear market, but we can share that the direction of that nation is to localize its supply chain and build up local infrastructure serving the build-out with the Chinese nationalized companies or state-owned enterprises. They needed western partners to get the first few units up and built. But it's clear, there's a clear commentary from them to the supply chain that they want to again localize that supply chain and use Chinese sources over time. The same sentiment is true for India where there is a planned build-out of three or four new nuclear reactors over the next decade. They've cited they want western partners for the first one or two and then they plan to build out their own supply chain to serve the future build-outs.

With respect to the Middle East, I think there would be opportunities there. Those are still percolating and in the early stages of planning. So we would see if there is a way that we can participate there and also in the UK. And so, that's more around new capacity and we do win work in the international markets from the installed base. This last quarter, we won work for an Argentine nuclear utility, we won work for a Chinese new construction project. So we are looking internationally.

And the last question was, do we orient our Energy Steel business toward the commercial power market, non-nuclear? The infrastructure and the operations model to serve the type of construction needed for a conventional power plant is at a cost basis that Energy Steel can't reach because of their Section 3, which is the nuclear accreditation, operating model, quality program and cost structures. So we would be a high priced supplier as the Energy Steel business into fossil-based energy. That would be more Graham in its core business and operation if it chose to allocate resources in that direction. But Energy Steel's ops model, quality program and COGS would not serve the commercial power market well.

Tom McLean: Right. Okay. Thank you.

Jim Lines: You are welcome,Tom

Operator: Our next question is from Joe Mondillo with Sidoti & Company. Please go ahead with your questions.

Joe Mondillo: Just a quick follow-up question. You guys mentioned on the prior call that you hired some consultants to investigate if your current product lines could be used in any other markets and new customers. Just wondering if you've discovered anything from going through that process at all?

Jim Lines: Yeah. We are probably in inning number four of a nine inning analysis there. There are some emerging themes and some new out-of-the-box thinking that's being generated in terms of markets we might be able to serve with our ops model and our value proposition. I don't want to provide too much detail, because it's still in the fermentation stage and developing. We are seeing some emerging themes that could point the compass other directions that we haven't thought about.

Jeff Glajch: It's Jeff. Just to follow on what Jim said. And that's part of our thought process around potential acquisition opportunities are not only what we have been looking at historically, but should one of these potential themes make sense for us to pursue, it could very possibly be via an acquisition.

Joe Mondillo: Okay. Would it be another type of a product that can complement your product and that could be the genesis that could be used towards this new market, is that the thinking?

Jim Lines: It would be a product, equipment or systems that have a need for the type of knowhow that we have. Mechanical design, thermodynamic fluid flow, heat transfer, mass transfer, those are the things that we do very well. And so, where can we take our competencies and move them into a market that we currently aren't thinking about? And again, there are some emerging themes that are starting to bubble up that we're analyzing that actually have us pretty interested as we go through this process. But it's too early to offer any commentary. But it would be clearly, how do we leverage what Graham already does well, can we take that into other markets that require similar attributes of the supply chain in terms of consultative selling, complex order management, low volume, high mix model, all the things that we do extraordinarily well. And there are some markets that we hadn't thought about that the consultant is bringing to our dashboard to look at.

Joe Mondillo: Okay. And then just in terms of the Navy business for fiscal 2019, I think I had it in my mind that that business could double in fiscal 2019 relative to what you have in the backlog. Could you just give us a little idea of what we should expect for next year?

Jim Lines: Yeah. That might be a little ambitious relative to where 2018 or 2017's revenue was which we haven't been definitive about, but it was 15%-20% of our sales. We would expect to lift from that, but not by 2x, of something between 1x and 1.4x.

Joe Mondillo: Okay. Okay. Thanks a lot. Appreciate it.

Jim Lines: You're welcome.

Operator: And our next questions come from the line of John Bair with Ascend Wealth. Please go ahead with your questions.

John Baer: Thank you. Just a quick circle around back to the cash allocation for acquisition and so forth. I know this has been going on looking for acquisitions for quite a while and I'm assuming that you're still glued to the idea of a long-term goal getting up to that $200 million in revenues and so forth. So, given where we're at right now, is there any consideration of possibly taking the company private, so you don't have to put up with these kind of phone calls and conference calls in the future? I'm sure Debbie might not like that, but has that been something that has been considered or tossed about?

Jim Lines: No, it hasn't.

Jeff Glajch: And John, we enjoy these calls.

John Baer: Yeah, right.

John Baer: Yeah. I know, I know. Well, I mean, it is that you've been through – to say you've been through a ringer in the last three years is an extreme understatement. And it takes a lot of time and energy for you to put these things on and you have to keep a positive outlook, it's been tough, I get it.

Jim Lines: Well, the ringer still would have been there, I would have bosses that I would be speaking to...

John Baer: Yeah.

Jim Lines: And our shareholders have been very approachable and very candid with their outlook on our company and we've been very transparent and candid with where we're going. And this has not been a problem for me. It's not been a stress riser to be a public company through the ringer.

Jeff Glajch: And John, we have a very positive view of the long term of these markets and of the view of the company and we think our shareholders – particularly those shareholders who've stuck with us through these challenging couple of years – we want them to be amply rewarded for their patience. And so, staying where we're at, I think is a good spot and hopefully we'll see growth in the future.

John Baer: Sure. Very good. Well, I'd like to see that $40 range again. I'm sure you would to, as everybody else on this call would. So, anyways, thanks a lot, thanks for taking the questions.

Jim Lines: Thank you, John.

Jeff Glajch: Thank you. John.

Operator: Thank you. This concludes our question-and-answer session. I'd like to turn the call back to Jim Lines for closing comments.

Jim Lines: Thank you, Brenda, and thank you, everyone that was on the call with your questions and your interest in the results in the third quarter and more importantly, the outlook. As we said a couple of times on the call, either Jeff or myself, we feel the second quarter, third quarter and the quarter we're in right now represent cycle bottom performance for the company and we're coming off the sharp downturn bottom performance that we've had and we are very optimistic about how the first half is set up for 2019 and that the worst of this downturn is behind us. So again, thank you for your time today. We look forward to updating you on our next call.

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