Operator: Greetings, and welcome to Williams Industrial Services' Second Quarter 2018 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. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Deborah Pawlowski. Thank you. You may begin.

Deborah Pawlowski: Thank you, Rob, and good morning, everyone. We certainly appreciate your time today and your interest in Williams Industrial Services Group.

On the call with me are our President and CEO, Tracy Pagliara, and Chief Financial Officer, Tim Howsman. Tracy and Tim will provide their prepared remarks and then we will open the call for questions.

You should have a copy of the news release reporting our second quarter results that was released after the close of market yesterday, followed by the filing of the 10-Q with the Securities and Exchange Commission. You can find these documents and the slides that will accompany today's conversation on our website at www.wisgrp.com.

If you turn to Slide 2 in the deck, I will review the Safe Harbor regarding forward-looking statements. As you are aware, we may make some forward-looking statements during the formal discussions, as well as during the Q&A session. These statements apply to future events which are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the earnings release, as well as with other documents filed with the SEC. You can find these documents on our website or at SEC.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe these will be 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. When applicable, we have provided a reconciliation of the non-GAAP measures to comparable GAAP measures in the tables that accompany today's release and slides for your information.

If you will turn to Slide Number 3, I will turn the call over to Tracy to begin. Tracy?

Tracy Pagliara: Thanks, Deb, and good morning, everyone. We are making a lot of progress and I appreciate your interest in learning about what we have accomplished, what we have yet to do and our expectations for the future.

A key indicator as to where the business is headed is a 42% year-over-year growth of our backlog and a 16% expansion from the trailing first quarter.

While revenue was down year-over-year, due to a nuclear outage schedule, sequentially it was up 11% to $48 million. Our work at Vogtle Units 3 and 4, the only new-build nuclear project in the U.S., has been increasing. We also have gained traction in the decommissioning market since entering it in the latter half of 2017.

Gross margin of 14% is consistent with our expectations, albeit moderated somewhat from the trailing first quarter as a result of mix.

Of note, general and administrative expense is down to $7 million, excluding $2.2 million in severance from headcount reductions and $600,000 of professional fees related to strategic alternative initiatives, including Koontz-Wagner.

Now let's turn to Slide 4.

Our priorities are to reduce our general and administrative expenses, recapitalize our balance sheet, complete the transition of the corporate office to Atlanta, and execute well on our operations and build backlog.

We've been moving forward on all fronts. Importantly, we need to ensure that the right resources are in place to make this happen. With this in mind, I'm pleased that Tim has agreed to stay on permanently as our CFO. That is a vote of confidence in our progress and the great potential of our business.

We have continued to aggressively reduce our general and administrative expenses, consistent with our commitment that those overall expenses will be no more than 7% to 9% of revenue in 2019.

Regarding the recapitalization of our balance sheet, since May, when Tim assumed the leadership position of our Finance and Accounting Team, we have made up lost ground regarding the completion of an asset-based loan, or ABL, revolver facility. In addition, concurrent with the completion of the Koontz-Wagner strategic alternatives process in early July, our term loan lender agreed to start negotiations regarding a refinanced loan. The disposition of Koontz-Wagner was a precondition to the commencement of those negotiations.

We have term sheets in place for both the ABL and refinance term loan. We have agreed to give both the ABL and term loan lender rights to exclusivity through September 15. This timing underscores our expectation to have the recapitalization of our balance sheet completed in the third quarter.

The move to Atlanta is progressing according to plan. Tim and I will start operating from there in September and the transition should be complete in all material respects by the end of that month.

As noted, the Koontz-Wagner strategic alternatives process is now completed. Even though credible bidders expressed interest in buying Koontz-Wagner during the process, we were not ultimately successful in selling that business and had to elect a Chapter 7 bankruptcy alternative. In hindsight, the impact of extremely poor 2017 performance in Houston, coupled with the Company's liquidity challenges, was just too much to overcome during the timeframe reasonably available to us to complete the strategic alternative review process. While we had to use our last card, it was important to take action. Koontz-Wagner had consumed $3.6 million of cash in the first half of the year, and we could not continue to fund a business that was not building any backlog.

The disposition of Koontz-Wagner represents the end of a two-year period in which the Company divested non-core assets, including TOG, Hetsco, Braden, CFI, and our U.S. and foreign-owned real estate to raise more than $80 million to fund our business and pay down debt. Taking these steps was indispensable to our survival and to position Williams for future success.

Looking forward, we have a number of tailwinds. We continue to grow backlog in our base business at a healthy pace. The markets we serve are solid as electric consumption is increasing with strong industrial output requiring upkeep and upgrades of facilities. The decommissioning market is still in an early stage with significant growth expected for many years, and the oil and gas industry has rebounded.

I am very encouraged with the progress we are making and believe we will deliver even better results in 2019. We are staying disciplined and are improving processes to drive cash generation, reduce risk and expand operating margin.

With that, let me turn the call over to Tim.

Tim Howsman: Thank you, Tracy, and good morning, everyone. I'm pleased to be reporting to you as the permanent CFO for Williams. I elected to stay on with the Company, because I'm excited to see the measurable progress the Company is making and have a high degree of confidence in our future potential.

If you turn to Slide 6, I will begin my review of our second quarter performance this year. I'll be focusing my comments on our continuing operations. Revenue for the quarter was approximately $48 million, down $10 million from the prior-year period, although improving $4.9 million over the first quarter of this year. The revenue bridge highlights the impact of the timing of outage work for one of our MMC customers whose nuclear reactor outage is scheduled every 24 months. The second quarter and the first half of 2018 did not have the benefit of that work, whereas the prior-year periods did. The scope of work we are performing at Vogtle Units 3 and 4 continues to build as that project is advancing nicely.

Revenue for the first six months of 2018 was down $12.5 million, despite a $20.1 million increase in revenue related to work performed at Vogtle Units 3 and 4, as well as $6.4 million in decommissioning work. The first half was down for similar reasons in the quarter, with the largest being the timing of the nuclear outage for our customer in addition to the non-recurrence of the release of a $4.4 million liquidated damage reserve and $1.2 million of revenue from Hetsco, which was sold in January 2017.

If you look at Slide 7, you can see that we delivered a solid gross margin of about 14%, which is in line with our mid-teens expectation, with gross profit of $6.7 million for the second quarter. Margin was down 90 basis points from the trailing first quarter, mostly as the result of project mix. We expect that gross profit will grow with volume and that, barring any unusual events, we should be able to continue to deliver gross margins in the mid-teens range.

For the first six months of 2018, gross profit improved $8 million. Last year's gross profit in the first six months was negatively impacted by $12.3 million of losses on three non-recurring fixed price contracts, which was partially offset by the benefit of the $4.4 million release of the liquidated damage reserve discussed earlier. Excluding those impacts, gross profit was similar in both periods.

If you would now turn to Slide 8, I will review our operating expenses. Excluding $2.8 million of expenses in the first quarter related to $2.2 million of severance expense and $600,000 of professional fees for strategic alternative activities, operating expenses for the quarter were down by $1 million compared with last year, after excluding $700,000 of restatement expenses from the prior-year quarter.

Moving to Slide 9, the severance expense in the quarter was related to our restructuring activities. We expect to incur another $1.7 million of severance costs in the second half of the year related to the closure of our Dallas office, of which we recorded $700,000 in the month of July. Additionally, as we will discuss on Slide 13, we expect to record approximately $12.5 million of expenses and the related liabilities arising from Koontz-Wagner's bankruptcy filing. Those expenses will be recorded in the third quarter of this year. In total for 2018, we are currently expecting restructuring costs in the range of $17 million to $19 million.

In 2019, we expect general and administrative expenses to be in the range of 7% to 9% of revenue.

Slide 10 shows our operating losses for the quarter and six-month periods. The operating loss in the 2018 second quarter would be about $1 million if you excluded the severance cost and professional fees I just mentioned, more in line with where we were in the trailing first quarter. Operating losses measurably improved in the first half of this year when compared with last year on higher gross profit and lower operating expenses. The 2017 first half included $2.4 million of expenses for the restatement of financial results for 2014 and prior periods.

On Slide 11, we show net loss from continuing operations and Adjusted EBITDA for the quarters and first half year periods. As you can see, our financial performance, while still not acceptable, is trending in the right direction.

If you would turn to Slide 12, I will update you on our cash position and the progress we have made on securing a revolver and refinancing the term debt. In the first half of 2018, we used about $220,000 of cash in continuing operations, mostly as a result of the timing of cost incurred on jobs that have not yet been built. Additionally, discontinued operations consumed $4.1 million in cash. At the end of June, cash and cash equivalents were $5.1 million, down from $8 million at the end of March. Restricted cash was $6.6 million at the end of the quarter, also down from $10.4 million at the end of March, primarily as the result of the release of a large standby letter of credit.

Our outstanding term loan debt at the end of the quarter was $25.7 million, net of $800,000 of unamortized deferred financing costs.

As Tracy noted, we are in active negotiations with lenders for both the refinancing of our current term debt, as well as a new asset-based loan facility, and to that end, have executed term sheets with both Centre Lane and our prospective asset-based lender. Both of those parties are in the process of completing their respective diligence procedures. We anticipate that both facilities will be in place by the end of the third quarter; however, we cannot guarantee that will be the case. Also, as the final agreements have not yet been executed, as you might suspect, we are not be able to give details related to the terms at this point.

Importantly, with Koontz-Wagner no longer a part of Williams, our financial performance and cash requirements should become more predictable and, in turn, reduce our liquidity issues. As noted on the following slide, Koontz-Wagner's operations used $3.6 million of cash during the first half of 2018.

If you will now turn to Slide 13, let me talk some about the expected impacts to our September financial statements as a result of Koontz-Wagner's bankruptcy filing.

Our near-term cash requirements related to their filing is about $4.2 million, which we expect to expend by the end of the year. Over the next 20 years, our third-party consultant's preliminary estimate is that we will have an approximate $260,000 annual cash outflow related to Koontz-Wagner's pension withdrawal liability.

We were quite successful in negotiating a $1.8 million settlement of our guarantee on Koontz-Wagner's Houston facility lease, a measureable reduction in a potential $10 million liability.

The remaining $4 million of expense related to the Centre Lane's waiver of the event of default arising from the bankruptcy filing is being rolled into the principal balance under the long-term debt facility.

Tracy, back to you.

Tracy Pagliara: Thanks, Tim.

Let's talk about what we were doing to drive our growth.

As I had mentioned, our backlog has been building over the last year, which substantiates our excitement about where the business is headed.

To reiterate, we are focused on building our base business. As noted on Slide 15, we have a number of opportunities within our existing customer base, but are also looking to build new relationships and increase the number of our long-term services agreements. In fact, to address opportunities in the fossil fuel market, we recently added more sales talent in the Midwest.

We believe we can continue to grow our decommissioning project work based on our progress to date and anticipated future opportunities. Our long-term experience and skills with nuclear facilities provides us a competitive advantage in this space.

We moved into Canada because of the amount of nuclear work expected over many years. We are legally and physically located there so that we can participate in this significant opportunity.

We're also gaining some decent traction in oil and gas. Our focus is on midstream opportunities, including the expansion of pipeline infrastructure. We hired an experienced oil and gas executive back in April. Since then, we have also hired a sales leader and have been getting approved as a service provider. We are now actively bidding on projects.

Slide 16 visually depicts our growth strategy. We have clearly defined our areas of focus, understand our priorities, and have the talent and resources to execute on our plans. [

With that, Operator, we can open the line for questions.

Operator: Thank you. At this time, we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your questions from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question comes from John Walthausen with Walthausen & Company. Please proceed with your question.

John Walthausen: Good morning.

Tracy Pagliara: Good morning.

John Walthausen: I have a couple of questions; on your plan to achieve operating expenses down to the 7% to 9% of revenue, is that dependent upon you growing the revenues from you're the $45 million to $50 million per quarter rate where we are now?

Deborah Pawlowski: John, let me just start and then I'll ask you to repeat the question, but the 7% to 9% is G&A expenses, so you have to add in about another 2% to get to operating expenses, selling, marketing and D&A.

John Walthausen: Exactly.

Deborah Pawlowski: Okay.

John Walthausen: But to achieve that reduction, do we have to grow revenue, or are we at sort of a steady state where we would we be able to achieve that?

Tracy Pagliara: Yes. John, with that question, there is modest growth predicted in 2019, but it will be primarily driven by the reductions that we are making. Obviously, that's particularly at corporate, but the reductions or the rationalization of the overall expense level will be at the entire company level as we move forward.

John Walthausen: Okay. Good. That makes a lot of sense. The other question that I have is, it looks like within the nuclear and utility business you have a lot of good opportunities. You are, of course, capital constrained. Why is the oil and gas business that attractive? I mean it seems like a different business. What do we offer there, I guess, that might give us a leg up over the incumbents in that business?

Tracy Pagliara: Well, we actually have some experience. We've done some work in oil and gas before. We think it's a natural adjacency for us. We've hired people that bring us customer relationships and the work we've done has been in midstream. We see a huge amount of opportunity in midstream. We've done pipeline terminal work previously, so it's not as if it's completely a greenfield opportunity for us. We do have some experience out there. We have also brought in some more talent that has some key customer relationships in the midstream space, so we just feel like it's too big of a market opportunity for us not to try and participate in at this point.

John Walthausen: From what you're saying, obviously, you added an Executive to run that and salespeople, you would expect a return on that investment by next year or will it take longer?

Tracy Pagliara: We are actively bidding on projects. We have up to $15 million to $20 million of bids outstanding currently. If you look at the amount of investments just in pipelines and what's going on in the Permian Basin with the shortage of pipelines, we think that there are some real opportunities. We would expect backlog by the end of this year and to start seeing a return on the investment into next year.

John Walthausen: Good. Thank you.

Operator: As a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. One moment please while we poll for questions.

Our next question is from Matt Reiner with Adirondack Funds. Please proceed with your question.

Matthew Reiner: Are you having any issues with labor in any of the areas where you are?

Tracy Pagliara: Generally, finding good, skilled labor is a problem for everyone in the U.S., particularly welders and what have you, but we don't have any material issues at this point. But, as we look to scale and grow our business, it's certainly something that we are putting our focus on. We have a total of about a thousand employees, most of which are craft. One of the things we do very well is we are well-connected with labor unions throughout the U.S., so to date, we've been able to not have a significant issue, but it's certainly something that we're not cavalier about. We realize, particularly as we look to scale our business, that is something we are going to have to pay attention to.

Matthew Reiner: Okay. That's all I have for now. Thanks.

Operator: Ladies and gentlemen, we've reached the end of the question-and-answer section. At this time, I'd like to turn the call back to Tracy Pagliara for closing comments.

Tracy Pagliara: Thank you, everyone, for participating today. We appreciate your time and interest in Williams. We have made excellent progress and expect to continue that momentum as we cut costs, complete our debt financings and finalize our move to Atlanta. Given strong conditions in the markets we serve and new opportunities that we are developing, we are well-positioned to deliver much stronger financial results in the not-too-distant future.

Thank you and have a great day.

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