Operator: Greetings and welcome to Global Power Equipment Group Fourth Quarter 2017 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] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations. Thank you. You may begin.

Deborah Pawlowski: Thank you, and good morning, everyone. We certainly appreciate your time today and your interest in Global Power. On the call with me are our President and CEO, Tracy Pagliara; and Chief Financial Officer, Erin Gonzalez. We will begin with our prepared comments and then open the call for questions.

We released after the close of market yesterday our fourth quarter and full year 2017 financial results and filed with the Securities and Exchange Commission our 2017 Form 10-K. You can find these documents on our website at www.globalpower.com. You will also find on our website the slides that will accompany today's conversation.

If you open the slide 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 Securities and Exchange Commission. You can find those 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 the 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 yesterday's release and slides for your information.

With that, I will now turn the call over to Tracy to begin. Tracy?

Tracy Pagliara: Thanks, Deb, and good morning everyone. A lot has happened here at Global Power since we last reported at the end of January. As noted in our 12b-25 filing, some of these developments resulted in our filing later than planned. However, with that extension, we are still within the allowed timeframe for timely filing, so we are now current with the SEC after three long years.

We have initiated a number of significant changes to transition from a holding company structure into an operating business. Most recently, Craig Holmes voluntarily resigned his positions as Co-President, Co-CEO and a member of our board as part of our plan to significantly reduce corporate overhead costs. Craig's knowledge and experience helped us get through some very trying situations. I appreciate the opportunity to work with him in our cooperative roles these last nine months, and with him as CFO since he joined us in September 2015.

In addition, six independent members of our board also elected to voluntarily resign ahead of our next shareholder meeting, reducing the board to five members. We believe that the size of our board is now more appropriate for our company and is consistent with our previously announced plans. We certainly appreciate the contributions each of our board members have made.

We have several items of positive news to report as well. First, we recently received notification from the SEC Enforcement Staff that they had completed their investigation and they do not intend to recommend an enforcement action by the SEC against the Company at this time.

Second, we resolved a contingent liability for performance-related liquidated damages for work performed under an agreement with a partner in connection with the power plant equipment installation project. As a result, we released to revenue in 2017 the $4.4 million contingent liability reserve, which we had carried on our books since 2015.

Third, we negotiated the settlement of certain disputed unsigned change orders. Tto maintain these longstanding customer relationships we agreed to settle, which resulted in us recognizing $2.8 million in revenue.

And fourth, we sold the building in the Netherlands for net proceeds of $300,000.

Importantly, our business continues to advance as we put several challenges behind us. In fact, our backlog is growing nicely. It was up over 16% to $138 million at the end of 2017 compared with the third quarter of 2017. Backlog at the end of the year included $86 million related to the construction of Plant Vogtle Units 3 & 4, which are the only new nuclear reactors currently being constructed in the United States.

We currently have three income streams related to Vogtle 3 & 4. One is direct contracts with the plant's operator. Second, we have a 25% membership interest in a limited liability company or LLC that supplies craft labor and supervision. This is our joint venture with Bechtel. And finally, we have contracts between us and the LLC under which we provide certain employee services to support the joint venture.

Moving into 2018, backlog grew 9% to $150 million at the end of March, compared with the end of December 2017. We are excited about the strong pipeline of opportunities that we are pursuing. With the momentum we are building, the board has concluded that this is a good time to evaluate strategic alternatives for Global Power. We expect to evaluate many options, which could run the spectrum from recapitalizing our balance sheet up to and including the sale of Global Power.

Finally, we arranged a $3 million incremental loan commitment with Centre Lane. Although we do not anticipate needing to draw on it, this is a backstop which can provide us emergency funds in the event we need them. Erin will discuss this in greater detail.

With that, let me turn the call to Erin.

Erin Gonzalez: Thank you, Tracy, and good morning, everyone. During today's conference call, we will cover our 2017 financial results in detail and will generally follow the presentation slides provided. Towards the end of the call, I will provide an update on our progress with our financing. We are presenting both the Mechanical Solutions and Electrical Solutions segments as discontinued operations in our 2017 Form 10-K as a result of the sale of the Mechanical Solutions business and our decision to sell the Electrical Solutions business in the fourth quarter.

As a result, our operating results are presented as one operating business that is comprised of our former Services segment, or Williams, and our corporate operations. With that, I will recount some recent highlights of 2017.

As previously reported, we sold the Mechanical Solutions business and related facilities in Mexico for total net proceeds of $44.5 million. Of which, we used $35.9 million to reduce debt. We also elected in the fourth quarter to exit the Electrical Solutions business as we focused our resources on Williams and the opportunities it presented.

As an example of the building momentum in our business was the announcement we made in October that we had formed a LLC with Bechtel to supply craft labor and supervision for Vogtle 3 & 4, the only new nuclear reactors being constructed in the U.S. We are a 25% member of that LLC. We are also working directly on the project. Combined, we expect that this will be significant revenue for us over the next four to five years.

We collected $6.4 million of $8.7 million in receivables related to a customer bankruptcy. We are anticipating that we will receive an additional $2.1 million, which is still reported as a receivable.

Now, I will review our operational results for the quarter and the year. As shown on slide number 4, revenue declined for both the 2017 fourth quarter and the year. In both instances, almost half of the decline was related to the sale of Hetsco in January 2017. While we substantially completed work on the restart activities at a nuclear power plant and two multi-year fixed price nuclear projects in 2016, we did have $19.2 million of maintenance and modification work for a scheduled outage in 2017.

And as Tracy noted, we had $7.2 million in revenue related to the settling of some unsigned change order disputes and the release of a contingency reserve. For the fourth quarter, Services revenue increased by almost 14% over the third quarter of 2017.

Please turn to slide number 5. Our gross profit declined primarily on lower revenue in 2017 for both the fourth quarter and the year. In the quarter, while gross profit was down $1.5 million, gross margin improved by 190 basis points to 18%. A positive impact of $2.8 million of 100% margin revenue, and improved project mix more, than offset the negative impact of $1.8 million in zero margin revenue related to loss contracts. Excluding these items, gross margin would have been approximately 13% for the fourth quarter of 2017 compared with 12% in the trailing third quarter.

For the year, loss contracts weighed heavily on gross profit. We believe that we have these challenges behind us and have improved our discipline in bidding future work and executing contract change orders.

Please turn to slide number 6. Our operating loss increased $900,000 to $1.3 million in the fourth quarter of 2017 as a result of the $1.5 million decrease in gross profit, which was partially offset by an $800,000 decrease in operating expenses resulting from the divestiture of our Hetsco business.

While the cost reductions and expense management results we reported in the third quarter carried over into the fourth quarter, for the year, the operating loss increased $4.1 million to $22.1 million as cost reductions were not sufficient to overcome the $13.3 million reduction in gross profit.

Our restructured operations during 2017 drove our selling and marketing expenses down by $600,000, and general and administrative expenses were down $3.4 million due to the Hetsco divestiture. Additionally, restatement-related expenses decreased $3.6 million in 2017. However, the significant decreases in expenses were partially offset by an $800,000 increase in severance expense during 2017. The 2017 general and administrative expense run rate at 19.2% of revenue is not acceptable.

The $36 million in general and administrative costs in 2017 included a $3.1 million restatement expense, $1.5 million in severance costs, and another $1 million for asset disposition and other one-time costs totaling just over $5.6 million in unusual costs.

Excluding the cost of restructuring, our plans call for the elimination of approximately $18 million to $20 million from the consolidation of IT, finance and accounting, and some executive functions. We also expect to improve processes and workflow to operate more efficiently and with fewer people.

Slide number 7 provides a summary of our adjusted EBITDA for the quarter and year. The reduction in adjusted EBITDA from continuing operations for both periods reflects fewer adjustments in the reported periods.

Slide number 8 provides details regarding our cash and borrowings. As communicated on prior calls, we entered into a $45 million senior secured term loan with an affiliate of Centre Lane Partners. The terms are shown here on the slide, and the term loan expires in December 2021.

In August, we amended that facility and added a $10 million first-out term loan, which expires in September of 2018. The $10 million first-out term loan was fully paid in October 2017 with a portion of the proceeds from the Mechanical Solutions business divestiture.

In 2017, our continuing operations used $29.2 million of cash. As of April 9, 2018, the outstanding balance on our Centre Lane term debt was $25.9 million. Our cash on hand as of the same date was $18.9 million, which included $10.4 million of restricted cash to cover our cash-collateralized letters of credit and escrow related to the divestiture of Hetsco.

We have been managing our cash position very carefully. The delay in our closing on the asset-based revolver was due in part to the lender's hesitation regarding several reported contingencies, which have now been resolved. With these behind us, we are reinitiating our efforts with various lenders to secure an asset-based revolver. But given the number of positive outcomes we have had of late, our building backlog and the favorable opportunities in front of us, even if we were unable to successfully secure an asset-based revolver, I believe we can pursue other financing alternatives.

We did arrange an incremental loan commitment of $3 million with our current lender, although we will only use it in the event of an emergency. Our recently executed amendments also extended our first required fee for us to satisfy the total leverage and fixed charge coverage ratios to September 30, 2019 and waive the requirement to pre-pay $3.6 million of extraordinary cash receipts to include $300,000 in cash proceeds from the sale of our office in the Netherlands. There were costs to the amendment including a $500,000 exit fee and a 1% unused line fee on incremental loan.

Now let me turn the call back to Tracy.

Tracy Pagliara: Thanks, Erin. The process to evaluate strategic alternatives for Koontz-Wagner remains active, and we are diligently pursuing a favorable outcome even though it has progressed slower than we had originally anticipated. The sale of Koontz-Wagner has gone slower than planned as a result of the challenges we have faced in our Houston plant, which we believe are behind us now as we complete the existing project work in that facility. We are in the process of re-launching our efforts to sell Koontz-Wagner. We have retained an additional investment banker. Our new banker is going to help us reposition Koontz-Wagner for sale to additional prospective new owners with alternative potential deal structures. Our goal is to complete this process by June 30, 2018.

Our work on Vogtle 3 & 4 is evident in our fourth quarter results and our backlog. There are more opportunities that we expect will be associated with various stages of construction and other work, such as facility management, that can last the entire construction period. The plants are expected to be completed by 2022.

As previously discussed, our backlog is growing and we are bidding on new opportunities in various markets. We continue to be encouraged with the traction we are gaining in the decommissioning area. Our objective there is to be a lead subcontractor for the largest EPCs in that space. We have won additional work beyond our first project. This is a long-term vision to establish a foothold in this industry. Keep in mind that a reactor going offline has three years of planning and engineering even before they begin to remove the fuel. What we are actively seeking now is work that likely will not be performed until 2020 and beyond.

Our cost reduction plan is being executed. With the reduction in the board and change in executive management, plus the additional head count reductions and cost efficiencies we will be implementing, we expect our corporate costs will be reduced to a $5 million to $7 million annual run rate by the end of the year. If properly executed, we expect to be an annualized general and administrative expense level more appropriate for this business, which should be approximately 7% to 9% of revenue.

These cost reductions, combined with the improvement in operations and pipeline of opportunities, promise a much improved 2018. We expect revenue to grow in the low-single-digit percentages and operating margins to be more in line with our historic services business by the end of the year, and we believe we will be positioned for an even stronger 2019.

As to our review of strategic alternatives, we are still in the early stages and have all options on the table. Our objectives are to advance the best interest of our shareholders and provide improved long-term prospects for our customers and employees.

Operator, we can open the line for questions.

Operator: Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of John Deysher with Pinnacle Capital Management. Please proceed with your questions.

John Deysher: Good morning, everyone.

Tracy Pagliara: Hi, John.

John Deysher: It looks like you're making solid progress, but I was curious about a couple of things. One of which was, I think Erin said, savings of $18 million to $20 million when we consolidate functions and so forth. It was not clear how that ties in with the reduction in corporate overhead. Can you add some color there in terms of what those savings are and where are they, whether corporate or operating?

Erin Gonzalez: Absolutely. Those savings tie into a lack of restatement expenses, so obviously we are wrapping up that process and we do not expect to have much in restatement expenses going forward. We will have cost reductions in SG&A. For one, in IT, we are going to streamline our IT processes, create efficiencies at the corporate back office, and eliminate redundant positions since we are going from a holding company structure to an operating company structure. The goal is to get our corporate expenses at a run rate at the end of the day to the $4 million to $6 million range. Now, we believe at the end of 2018 we'll be in the annual run rate range of around $5 million to $7 million, with the opportunity in early 2019 to get it down to where we need to be for a single operating company.

John Deysher: Okay. And I think you said that would be in the 7% to 9% of revenue range.

Erin Gonzalez: That's correct.

John Deysher: For corporate overhead. Okay. Got it.

Erin Gonzalez: No, that is total overhead.

Tracy Pagliara: Total.

John Deysher: Total operating and corporate.

John Deysher: Okay. And corporate will be $5 million to $7 million by the end of this year?

Erin Gonzalez: That's correct. That's the annual run rate that it'll be.

John Deysher: Right, right, right. Okay. All right.

Erin Gonzalez: Recognizing that there will be restructuring costs to get there such as severance.

John Deysher: Okay. You're right. Okay. What's left to collect on all the items that you went through in 2017? Are there any remaining balances left to collect?

Erin Gonzalez: Could you clarify to what you are referring?

John Deysher: Well, you collected $6.4 million of the $8.7 million regarding bankruptcy.

Erin Gonzalez: That's correct. Yes.

John Deysher: Is that still on the table?

Erin Gonzalez: Right now we have $2.3 million of receivables. We've reserved about $200,000 of that. So we expect to collect $2.1 million this year.

John Deysher: Okay. Any other items regarding change or the disputes or anything like that that remain to be collected?

Erin Gonzalez: No. We've resolved those with our customers and our balance sheet is clean going forward from that perspective.

John Deysher: Okay. So it's just the $2.3 million. Okay, great.

Erin Gonzalez: That's correct.

John Deysher: Regarding the strategic alternatives, for the company as a whole, has a banker been hired and what's the status of that at this point?

Tracy Pagliara: Yes. We've hired a banker. It's an international investment banking firm. We have begun the process of evaluating all the different alternatives. We have prepared marketing materials for Global Power including Williams, and are exploring many potential market interests, but we are still early in the process.

John Deysher: Okay. So you've got one set of bankers marketing Koontz-Wagner and the other banker is marketing the Company as a whole including Williams?

Tracy Pagliara: Correct.

John Deysher: Okay. All right good. Why do you think Koontz-Wagner will be concluded by June 30?

Tracy Pagliara: Well, we are going to be back in the market this week with the new banker we have retained. We feel that we are repositioning the sale in a way that limits the impact of Houston. We've tended to look at that business in the entirety with all the different facilities as one business. But we are back in the market to offer prospective buyers an opportunity to bid on different facilities within the portfolio of the Koontz-Wagner business. We think with the banker we've selected, and with the strategy that we are pursuing, that we will not need that long to ferret out prospective bidders and move forward on an accelerated basis. Bear in mind, we've done a lot of work to date, so we feel good about where we are. It's just a matter of going back out for this limited Phase 2 marketing process, which will involve another 25 to 50 different potential bidders. But the firm we have, while it's a new firm, is very experienced with our business and has done deals with us before. So, we think all the stars are aligned properly for us to move quickly from here.

John Deysher: Okay. So you think you can reach another 20 to 25 new bidders in the exchange at least.

Tracy Pagliara: At least.

John Deysher: All right. Well, that's encouraging. Good. I guess the only other question is, now that you're back current with the SEC, do you anticipate your first quarter 10-Q filing to be timely?

Erin Gonzalez: Yes, we do.

John Deysher: And when do you anticipate that happening?

Erin Gonzalez: So, we'll be filing around May 15.

John Deysher: May 15. Okay. With earnings release around that time as well?

Erin Gonzalez: Exactly.

John Deysher: Okay. Great. Very good. Appreciate the comments.

Erin Gonzalez: Thank you so much.

Tracy Pagliara: Thank you.

Operator: [Operator Instructions] Our next question comes from the line of John Walthausen. Please proceed with your questions.

John Walthausen: Okay. Let's talk a little bit about Koontz-Wagner. Again, it sounds like things have developed at Houston in a way that you didn't anticipate. I think, and I have not gone in-depth into my notes, but do you expect the problem contracts to have been shipped before now? Can we talk about the status there? And in your strategy of perhaps marketing the different facilities separately, is that a facility that can be bankrupted, if need be, to avoid future liability?

Tracy Pagliara: Thank you. Well, let me let me start by saying that the issue we had in Phase 1 of the marketing Koontz-Wagner was the instability in our Houston facility. We have shipped the problem orders in the fourth quarter, and into January and February. Those are behind us. And we have stabilized that facility at this point. We are working through our existing projects and have what we believe is a much better handle on our cost structure there.

In terms of the approach to the sales process going forward, there's real value in the South Bend and Caldwell businesses. They're projected to have good years this year. They've historically been good-performing businesses. So we are going to pursue the opportunity with prospective bidders to have them look at those businesses separately as opposed to bidding on Koontz-Wagner as a whole, and we feel confident in our ability to have a successful outcome.

At this point, we are not really considering a bankruptcy alternative. I think that would be difficult to pursue if you have a successful sale of even part of the business. There's complications with that. But obviously, we are going to keep all of our alternatives and options open. We are, at this point, focused on having a successful sale process for Koontz-Wagner completed by the end of June.

John Walthausen: Okay. That's helpful. But, from that, I construct that Houston is a continuing cash drag and will be at least through the balance of this year.

Tracy Pagliara: I would not say it's a cash drag in the sense that it was for 2017. We still have some challenges there, but certainly nowhere near the magnitude of the problems we had in 2017 and into the first couple of months of 2018. Our hope is that, as we go through the sale process, we'll find a buyer that's interested in buying the whole business including Houston. But we are going to be realistic about that, and if a buyer comes along and wants to buy one of the three facilities or two of the three facilities, we are going to be flexible about that.

John Walthausen: Right. Assuming that all goes well and we close the sale at the end of the second quarter, between the numbers that we are looking at the year-end numbers and then, what's the level of cash drain that the Koontz-Wagner is going to have?

Tracy Pagliara: We think it will be breakeven for the year. So we are not looking at having cash drain, if you will. So it should be net neutral. That's our expectation.

John Walthausen: Okay. Good. Switching to the Williams part of the business, you talked about a hope and a plan to get back to normal margins. As I look back at my earnings models, Williams, when things are going well, has a gross margin between 13% and 14%. Is that what we should be anticipating, or is there a normal that's not obviously in the short term that I can look at it?

Erin Gonzalez: Normally Williams runs their gross margins in the mid-teens, but usually between 13% and 17%. We expect we will be in that range in 2018 and beyond.

John Walthausen: And to get towards the middle or upper end, is that a volume issue or are there are operational issues that can be addressed?

Erin Gonzalez: It's not necessarily a volume issue. It's a project mix issue. So what we need to focus on is getting projects that can provide value and get the margins to where we need them to be in that range.

John Walthausen: As you move towards the higher margin potential, does that involve ones where there's greater performance responsibility, and hence sort of more at-risk in the margin, or help me understand where the richer part would be?

Deb Pawlowski: Erin, let me answer that. This is Deb. Yes.

John Walthausen: Hi, Deb. How are you doing?

Deb Pawlowski: Good. Good. So, yes, you're right. On average, we tend to be more toward that 13% to 15%, but you have seen some quarters where we can peak up and it usually is related to some bonus awards that we can get for safety. And if we operate extremely well and there was some extra built in there for insurances that we do not have to cover, et cetera, that's how you can kind of get a little peak in there, but it would not be a standard run rate for the business.

John Walthausen: Okay. Okay. That's good. And then in terms of getting the corporate overhead down towards the target level you alluded to, there would probably be some unusual charges in there, extraordinary charges. Can you quantify what the scope of them may be?

Erin Gonzalez: Certainly. We expect somewhere in the $8 million to $12 million one-time cost just the restructuring cost to get us down to the run rates that we talked about.

John Walthausen: I take it that those would mostly be severance cost.

Erin Gonzalez: That's correct. And also wrapping up some IT costs as well.

John Walthausen: Okay. Okay. So, terminating contracts and things like that. Okay. Okay. Those were my questions. Thank you very much.

Erin Gonzalez: Thank you so much.

Tracy Pagliara: Thank you. Thanks, John.

Operator: Our next question comes from the line of William Nicklin with Circle N Advisors. Please proceed with your question.

Bill Nicklin: Good morning. Could you describe your current net operating loss situation? And under what circumstances those NOLs could have some value for the shareholders?

Erin Gonzalez: Our federal net operating losses are around $184 million and our state net operating losses are around $233 million. And so, obviously, to the extent we can carry those forward and when the Company is profitable, we'll be able to use those. We are closely monitoring our Internal Revenue Code Section 382 situation to make sure that we do not trip a change of control, so that we can make sure that those net operating losses are available for us to use.

Bill Nicklin: Okay. That's what I wanted. That's all from me. Thank you.

Erin Gonzalez: Thank you.

Tracy Pagliara: Thanks.

Operator: Thank you. We have reached the end of the question-and-answer session. I would now like to turn the floor back over to management for closing comments.

Deb Pawlowski: I'm sorry, Christine. I just saw we have John Deysher with Pinnacle queued back in.

Operator: John Deysher, you may ask your follow-up question.

John Deysher: All right. Just a quick follow up. You mentioned KW. You anticipate a breakeven cash flow for 2018. How much did KW lose on a cash flow basis for 2017? In other words, what's the swing delta going to be, or what you expect it to be?

Erin Gonzalez: Their net loss for 2017 was around $30 million, and their cash flows would be under that.

John Deysher: Okay. But did the $30 million include restructuring or non-recurring items?

Erin Gonzalez: Yes.

John Deysher: Okay. So what would it have been without that?

Erin Gonzalez: I'll correct myself. It was more around $22 million, not $32 million. And so when you take out some of those costs, I would say that net cash burn was somewhere between the $10 million to $15 million range.

John Deysher: Okay. So the swing is going to be $10 million to $15 million to get you to cash flow breakeven for 2018?

Erin Gonzalez: Yes.

John Deysher: Okay. Great. That's it. Thank you.

Erin Gonzalez: Thank you.

Tracy Pagliara: Thank you.

Operator: Thank you. I will now turn the floor back over to management for closing comments.

Tracy Pagliara: Well, thanks everyone for participating in our earnings conference call, appreciate the interest. We are excited to have resolved several important issues and feel that the business is turning the corner. We still have a lot of work to do, but we are very confident that there will be good outcomes here for all of our stakeholders in the future. Thank you.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.