Ecology and Environment Inc.
Investor Review for Fiscal Year End 2018 and Fiscal Year 2019 Q1 and Q2
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Corporate Speakers:

- **Marshall Heinberg; Ecology and Environment Inc.; Executive Chairman**
- **Todd Musterait; Ecology and Environment Inc.; President of US Operations**
- **Peter Sorci; Ecology and Environment Inc.; Acting Chief Financial Officer**

Participants:

- **Peter Rabover; Artko Capital LP; Portfolio Manager**
- **Randall Mehl; Stewardship Capital Advisors, LLC; President & CIO**

PRESENTATION

Operator: Good morning and welcome to the Ecology and Environment Inc. Fiscal Year 2018 Year-end and Fiscal Year 2019 Q1 and Q2 Investor Conference Call. Today's webcast is being recorded. The slide deck can be accessed from the Investor Relations page of E & E's corporate website at ene.com.

At this time, I would like to turn the call over to Mr. Marshall Heinberg.

Marshall Heinberg: Thank you, operator, and good morning, everyone, and thank you for joining us to discuss Ecology and Environment's financial fiscal results for the year 2018 and the first two quarters of fiscal year 2019.

I am Marshall Heinberg, E & E's Executive Chairman; and joining on our call today are Todd Musterait, President of U.S. operations; and Peter Sorci, our acting Chief Financial Officer. After finishing our prepared remarks, we will be happy to open up the call to take your questions.

First, as is required, I'd like you to note that certain statements made in the course of today's conference call may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve certain risks and uncertainties and is important to note that the company's actual future results could differ materially from such forward-looking statements.

The company cautions investors not to place undue reliance at any forward-looking statements made during the course of this conference call, and E & E disclaims any obligation to update any forward-looking statements made today.

So, with that, I think it's important that we give an explanation as to why it has taken us so long to make our filings. We certainly appreciate the patience of our shareholders that – which were shown to us during the time period when we were unable to report and able to provide very little information to the marketplace.

As previously noted, after we discovered that we did not have control of our Chilean subsidiary known as GAC, we were required to restate all of our financial statements for a 3-year period. Unfortunately, once you get into a restatement and into the national office of the major accounting firm, it ends up being a very slow and time-consuming process.

You'll see that there were no other major issues from an audit perspective or an integrity perspective. It was, as we've described previously, a requirement coming out of the discovery of our lack of control of the one subsidiary.

What's probably as – or more important as you review our recent results is that our financial performance has been severely disappointing. The approach that we were taking to organic growth was clearly not working, and the company had been distracted by our wish to do acquisitions. We also realized, as we dug into the results, that our cost structure was severely bloated, and our utilization was well below where we needed to operate.

A determination was made to embark on a significant cost reduction program, and we initiated a 3-pronged approach of a voluntary retirement program for some of our longstanding employees, a reduction in workforce and a disciplined look at some of our overhead costs. As we reported previously to the marketplace, we have been able to take out more than $6 million in cost on an annualized basis.

The board also made a fundamental decision that we needed a dramatic change in leadership. The decision was made to ask me to serve as Executive Chairman for a period of time but, most importantly, to appoint Tom – Todd Musterait, who joins us on the call today as President of U.S. operations and to add Kurt Zmich as Senior Vice President of U.S. operations, both of whom are, along with me, members of the Operations Committee.

Together, we made a determination that we needed to operate the business in a much more data-driven manner, which had not been done before in quite the same analytical way. We are also keen to build a professional sales staff and a marketing platform to drive future growth. We are very fortunate at E & E to have a very talented and dedicated group of professionals who are eager to reinvigorate the company.

With that, I would now like to turn the call over to Todd to discuss all of the strategic initiatives that we've undertaken since his appointment. Todd?

Todd Musterait: Thanks, Marshall. If you could turn to – please turn to Slide 3. As Marshall previously mentioned, our leadership team has implemented several improvements to set us on a path for growth.

During the first two quarters of fiscal year 2019, we restructured the U.S. business to better align with our core lines of business and practice areas and set us up to expand further into emerging markets. Our new structure is centered on three business lines, including Site Assessment & Remediation, Energy, and the third area, Enterprise Programs.

Our Site Assessment and Remediation business is focused on addressing legacy pollution to the federal, state and commercial markets. Our Energy business continues to provide services to pipelines, LNG, deepwater ports, transmission renewables and offshore resources. And our third business line is focused on restoration, Department of Defense, climate adoption, resiliency, sustainability, emergency planning and response, infrastructure, water resources and telecommunications. We are excited to align our resources and offerings to the marketplace under this new structure.

As part of our restructuring, we have launched a new sales and marketing strategy that supports the growth of our business lines with a fresh perspective of our company in the marketplace. We are procuring new sales directors, including Elizabeth Powell in our Enterprise Programs business line who brings over 25 years of environmental market experience. And we have recently added a new Marketing Director, Russ Reardon, who brings over 20 years of industry marketing leadership to our organization. We are also procuring new sales managers to work within our business lines.

We have implemented cost reduction initiatives to improve profitability and create better alignment of our staff resources for growth. As we have previously communicated, the staff reduction programs, including voluntary retirement and involuntary separation programs, are being implemented along with other expense reduction initiatives that have resulted, to date, in annual pretax cost savings of approximately $6 million.

These activities are expected to result in pretax charges and cash expenditures of approximately $1 million during the fiscal year ending July 31, 2019, consisting primarily of employee severance and termination benefits. These initiatives were substantially completed by April 30, 2019, and are expected to be completed by July 31, 2019.

A key component to realizing our growth expectation is our focus on organic growth through improved operational efficiencies and management, including a more uniformed reporting approach to drive informed decision-making. Another key component to realizing our growth expectations is growing our revenue with key account management, which emphasizes cross-selling our services and providing value-add services to our key clients.

We are also prioritizing the acquisition of top-tier market talent to our organization to expand our participation in core business lines and emerging practice areas, including climate adoption, resiliency, sustainability, natural systems restoration, coastal engineering and water resources.

Strengthening our regional local presence in partnerships where these opportunities exist will also be a key component of our growth strategy.

Our new business line structure integrates sales and project delivery functions to create efficiencies, improve communication and foster a more collaborative approach to capturing work and delivering services.

Now I'd like to turn it over to Peter Sorci to review our financial results.

Peter Sorci: Thank you, Todd, and good morning, everyone. Before I review our results, I'll provide additional information regarding restatements of our prior year financial statements. This is a summary of information included in our recent SEC filings.

In December 2018, our Audit Committee determined that the company's previously issued financial statements for annual and quarterly period prior to July 31, 2018, could no longer be relied upon by our shareholders. As a result, the consolidated financial statements included in our annual report on Form 10-K, including restated financial statements for the fiscal years ended July 31, 2017 and 2016.

In addition, the quarterly and year-to-date financial statements included in our quarterly reports on Form 10-Q for the period ended October 27, 2018, and January 26, 2019, included restated financial statements for the comparative prior year reporting periods.

The Audit Committee concluded that previously issued financial statements could no longer be relied upon due to errors related to accounting for our investment in a Chilean subsidiary, which we refer to as GAC, since our initial investment in 1999. We included GAC's financial statements in our consolidated financial statements filed with the SEC prior to July 31, 2018.

In December 2018, we determined that, although we had the majority ownership interest in GAC, we did not have a controlling interest in GAC operations due to lack of continuous control with the activities of GAC's Board of Directors and senior management team. As a result, our net investment in GAC should have been accounted for using the equity method of accounting.

Although deconsolidation of GAC had minimal impact on our consolidated net income, it did result in material reductions of multiple lines of all of our consolidated financial statements. For example, the adjustment for deconsolidated GAC resulted in decreases in consolidated gross revenue of $7.6 million and $7.5 million for fiscal years 2017 and 2016, respectively, and a decrease of $2.3 million of consolidated total assets at July 31, 2017.

In addition to the GAC deconsolidation adjustments, previously filed financial statements were also adjusted to correct other errors in the financial statements and disclosures that were deemed to be immaterial on an individual basis and in the aggregate for the fiscal years during which the errors were originally identified.

I'll begin on Slide 4 with a review of our fiscal year 2018 results. Please note, for purposes of this presentation, that gross revenue less of contract cost is the key revenue metric for our business because it represents revenue that we generate strictly from our consulting services and it excludes pass-through revenue that we collect from clients and pay out to subcontractors. When we refer to revenue or revenues during this call, we're generally referring to gross revenue less subcontract cost.

Also, our management team generally assesses operating performance and make strategic decisions based on the geographic regions in which we do business. Our SEC reports include operating segment information for our U.S. and South American operations, and information for these operating segments is also included in this presentation.

We reported a consolidated net loss of 3 – $0.3 million or $0.07 per share for fiscal year 2018, down from restated net income of $2.8 million or $0.66 per share for the previous year.

Consolidated revenue of $73.5 million for fiscal year 2018 was down 8% compared to $80.1 million for the previous fiscal year. The loss for fiscal year 2018 was driven by lower revenue and earnings from our U.S. operations, which was only partially offset by improved revenue and earnings from our South American operations.

In the U.S., lower revenue during fiscal year 2018 primarily resulted from depressed activity in our core markets, particularly energy and federal government sectors. We experienced a trend of longer periods being required for current or potential clients to make contract award decisions, particularly within the liquid natural gas and the transmission markets.

We also experienced a trend of longer periods required for clients to release contract scopes and delivery schedules, particularly with our – within our energy, international cable and federal Department of Defense markets.

In addition, final settlements on project disallowances resulted in a $1.1 million increase in revenue during fiscal year 2017. We did not report any similar activity during fiscal year 2018.

Improved results from our South American operations during fiscal year 2018 were driven by higher revenue from our operations in Brazil and Peru.

In Brazil, an economic downturn that had adversely affected our operations for several previous reporting periods continue to stabilize during fiscal year 2018, resulting in additional business development opportunities and increased project activity within the energy transmission, seismic and wind sectors. The mix of contract work, along with changes in our pricing strategy, also generated a higher average selling rate in fiscal year 2018 as compared to prior years.

Higher revenue from our Peruvian operations result – during fiscal year 2018 resulted from increased project activity within the energy sector. Increases in mineral prices, gas demand and private and public investments in energy projects each contributed to strong revenue growth in Peru.

Slide 5 provides a summary of our results for the first 6 months of fiscal year 2019 compared with restated results for the first 6 months of the prior fiscal year. We reported a consolidated net loss of $0.4 million or $0.10 per share for the first 6 months of fiscal year 2019, down from restated net income of $0.1 million or $0.02 per share for the first 6 months of the previous fiscal year.

Consolidated revenue of $33.8 million for the first 6 months of 2019 was down 8% compared with $36.6 million for the previous year. Lower revenue and earnings from our U.S. and our Peruvian operations in South America were partially offset by improved revenue and earnings from Brazilian operations.

During the second quarter and first 6 months of 2019, we recognized revenue growth in the U.S. from survey, impact assessment, planning and data management services provided to clients in the LNG, offshore resources and resilient community markets. However, this revenue growth was more than offset by decreases in revenue in the pipeline, onshore renewables, armed services and site assessment and remediation markets, as projects completed during fiscal year 2018 and the first quarter of fiscal year 2019 were not replaced with new work of comparable size.

In addition, the federal government shutdown that occurred during the second quarter of fiscal year 2019 delayed new work authorizations, affected ongoing project schedules and postponed revenue delivery on various federal government contracts.

After initial outlays of cash for employee severance and termination benefits, the corporate restructuring plan and staff reduction programs described previously by Todd are expected to have a significant positive impact on our U.S. earnings and liquidity position during the fourth quarter of fiscal 2019 and future reporting periods.

Revenue from our Brazilian operations increased 19% during the first 6 months of fiscal year 2019 compared to the same period of the prior year.

In local currency, revenue from our Brazilian operations increased 30% due mainly to increased project volumes with commercial clients in the transmission, energy and mining sectors. Strengthening of the U.S. dollar compared to the Brazilian real significantly offset the positive impact of higher project volumes.

Revenue from our Peruvian operations decreased 39% during the first 6 months of fiscal year 2019 as compared to the prior year due to lower project volumes with commercial clients in the energy sector.

In Peru, a continuing corruption investigation and related policy changes slowed public and private investment. However, during the second quarter of 2019, Peru won 2 large service contracts valued at over $5 million, which we expect will begin generating revenue during the fourth quarter with increasing revenue early in fiscal year 2020.

Slide 6 provides a summary of operating cash activity for our consolidated operations. Our consolidated cash balances increased slightly during fiscal year 2018 as cash flow from operations continue to outpace cash required for investment and financing activities. Cash decreased during the first 6 months of fiscal year 2019.

Negative operating cash flows resulted from the trend of lower revenues and earnings previously addressed during this call. Initiatives implemented recently to improve revenue growth and reduce operating expenses as well as those to be implemented over the next several months are expected to result in improved operating cash flows for future reporting periods.

We paid dividends of $1.7 million during fiscal years 2018 and 2017, and $0.9 million for the first 9 months of fiscal year 2019.

Our net liquidity position remained strong as we continue to require minimal support from lines of credit or other debt instruments that fund our consolidated operations. As of January 26, 2019, we had $32.4 million of availability under lines of credit to support our U.S. operations and $1.6 million of availability under lines of credit to support our South American operations.

And now I'll turn it back to Todd to review our contract backlog and market outlook.

Todd Musterait: Thanks, Peter. Slide 7 provides a summary of our firm backlog. Firm backlog represents an estimate of gross revenue expected to be recognized over the remaining life of projects under contracts that are awarded, funded and in progress. The amounts in Slide 7 reflect our recently refined definition of firm backlog to exclude estimates of unfunded backlog that may someday become firm backlog.

Projects included in our firm backlog include work to be performed under contracts, which contain termination provisions that may be exercised without penalty at any time by our clients upon written notice to us, in which case the client would only be obligated to pay us for services provided through the termination date.

A significant portion of our revenue is generated through projects awarded under master service agreements with our clients. In these instances, only the current unfinished projects are included in our backlog. Moderate fluctuations in backlog from quarter-to-quarter and year-to-year are normal occurrences in our industry.

In our U.S. operating segment, we recorded a 5% increase in firm backlog from July 2018 to January 2019, most of which was associated with our Site Assessment & Remediation business line. We also reported a significant increase in backlog in our South American operating segment over the first 6 months of fiscal year 2019, which provides further indication of continued improvement in revenue growth and operating results expected within those markets.

If you turn to Slide 8, I'll now speak about market conditions, our position in these markets and the associated market benefits and challenges to the business.

First, our work for the federal government continues to be dynamic. Funding for environmental programs continues to flow from the federal government, the states and local municipalities, be it grant programs and other mechanisms. There is increased competition in the federal space with an emphasis on the federal government to maximize small business contracting through small business set-asides or the creation of larger mega contracts.

Also trend towards lowest-priced technically acceptable contract awards is driving increased price competition. We continue to evaluate strategic partnerships through joint ventures in our mentor-protégé relationships and to identify small business partnerships to be successful in capturing these contracts.

Further, federal agencies are developing strategies for private-public partnerships to address infrastructure needs, including programs to accelerate cleanup of legacy pollution and encourage economic development. E & E is positioning to participate in this space, leveraging our experience on legacy cleanup issues with various federal agencies and the private sector to promote these partnership opportunities.

The extended federal government shutdown earlier this year did have an impact on our ability to do the work under certain contracts and delay the issuance of task orders, particularly in non-DoD agencies. Projected delivery of this project backlog was extended further into the fiscal year.

Energy infrastructure development continues at the state and local scale under state-driven planning and permitting frameworks, the national and regional energy systems are mature, leading to increased investment and replacing and upgrading existing systems. E & E continues to participate in regional markets to support our energy clients' infrastructure development projects.

We expect continued growth in the infrastructure necessary to support the U.S. export of both oil and natural gas as LNG. Our work in renewables continues to have a positive outlook based on market conditions and favorable policy. Major corporations, utilities and jurisdictions are responding to their shareholder and rate payer demands for renewable energy generation and the associated electric transmission infrastructure.

Federal permitting of energy and infrastructure projects is changing with the administration's streamlining requirements for environment review, including environmental assessments and environmental impact statements. This introduces uncertainty on projects with our federal agency and commercial clients.

Our experience with similar streamlining efforts on previous administrations have agencies welcoming our support. Broader transportation and civil infrastructure investment continues to be slow to adjust our country's deteriorating infrastructure, but environmental and climate change provisions would be positive signs for our work.

While Department of Defense spending have increased for defense products, there is a declining trends in DoD defense services contracting with the redirection of funding this year due to hurricane damaged installations requiring capital to rebuild. We continue to navigate opportunities within DoD. We are pursuing upcoming Navy need for home basing, Air Force encroachment, additional work in DoD cleared space and leveraging our mentor-protégé relationship to secure and aid small business set-aside funding.

We continue to see more opportunities for our resilient community offerings. In particular, on the West Coast, in a trend toward more complete ecosystem restoration project implementation, from program design to design build. Supplemental federal disaster response funding for construction and restoration of hurricane impacted states and areas may provide additional opportunities for our restoration practice, and we see a growth trend in coastal and stream restoration opportunities.

Our South American operations continue to stabilize from previous years. Mining, energy and telecommunications have been the primary revenue drivers for the past several years and will continue going forward.

In addition, we have seen increased opportunities with each entity in recent months. For example, in Peru, political issues continue to impact economic growth. However, new opportunities with highway and rail infrastructure are emerging.

In Brazil, there is an increase in energy and civil infrastructure projects due to the new administration's priorities.

And in Chile, with its economy continuing to grow at a lower rate, they too are seeing increased opportunities in infrastructure and anticipate an upsurge in lithium mining with increasing demand for electric vehicle battery manufacturing.

The strategic initiatives I mentioned earlier, including our new internal business line structure, our emphasis on key account management and our investment in building a marketing and sales platform, are critical initiatives that will allow us to understand these market trends more thoroughly, identify opportunity more swiftly and create avenues for new growth going forward.

In summary, we believe our new business structure creates a stable platform to best utilize our resources for growing the U.S. business. We have a renewed focus on our core markets to maximize capture of opportunities, while strategically investing in growth markets, as I've described previously.

Our sales and marketing strategies are aligned, with project delivery teams creating a unified and streamlined approach to meet our clients' needs with an eye towards delivering value-added services and expanding into emerging markets with our specialized services and offerings.

Our South American operations continue to stabilize in Brazil and Chile, and we continue to evaluate the impacts of current political influences and policy changes in Peru. We have seen increased opportunities, for example, in Brazil related to energy and civil infrastructure as well as telecommunications and cable lining projects.

The business continues to be in a sound liquidity position with approximately $11 million of consolidated cash at the end of the second quarter for fiscal year 2019. We have delivered 64 consecutive semi-annual dividends since 1987, with a yield of approximately 3.6% for the dividend paid recently in March 2019.

That concludes our presentation. We will now open up the call to your questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions)

And our first question comes from the line of Peter Rabover with Artko Capital.

Peter Rabover: I got a bunch of questions, so if there's a big line, I – I'll just jump back in. So, congratulations on getting the audit done. And so, I guess my first question is what are the approximate cost of the audit. Like how much did that impact the first 6 months of 2019?

Peter Sorci: Well, the first 6 months of 2019, it did reflect a large portion of the cost. Most of the costs associated with the audit fees, and there's also some legal fees will be third quarter costs. I'm not prepared today to tell you the exact amount.

I would ask that you wait until we file our third quarter report to give you exact amount or how much was expended. But as you can imagine, it was a fairly significant amount for the third quarter.

Peter Rabover: Okay. So that hasn't been reflected in the filled statements yet.

Peter Sorci: Mostly, they will be adopted recently, too, in the third quarter. That's correct.

Peter Rabover: Okay. I guess maybe we can talk about the U.S., the federal government, the domestic government business. It sounds like you guys lost. Most of the decline for 2018 has come from that based – just reading your 10-K.

And I'm just curious if there – what impact that the gross margin that they used to be more of a lower margin business and maybe talking about the layoffs and how does that – are most – which areas are the layoffs coming from. And how does that impact productivity and things like that? So, appreciate any color you can give me.

Todd Musterait: Sure, Peter. Thanks for the question. Regarding the initial part of your question, we did see a reduction in our, what we call, our Site Assessment and Remediation business line moving from fiscal year '18 into the first quarter of fiscal year 2019.

We do see improvement on our backlog, as we indicated, associated with Site Assessment and Remediation. And keep in mind that is composed of both state contracts as well as federal contracts, specifically within that area that's driving revenue.

We did have some weather delays in the first quarter in the Southeast. If you recall, Hurricane Michael hit the Panhandle in early October, which did have an impact on our delivery of site assessment and remediation work under certain contracts.

Regarding your question, and I'll let Peter take the gross margin perspective, but regarding the staff makeup, I can say that as part of the cost reduction initiatives, a key component to that was ensuring that we had the right staff makeup to approach the market and go after the opportunities we feel would be good for the firm and the U.S. operations moving forward.

I won't necessarily comment on the demographics with respect to the type of people, but we did look across the business to ensure that we have the right staff makeup to ensure excellent project and client delivery as well as looking forward to the opportunities that we're going to be pursuing.

Peter Rabover: Would most of the cost savings come from SG&A or gross costs?

Peter Sorci: I think most of the cost savings would be in direct areas, would be overhead and key SG&A.

Peter Rabover: Okay, okay. And do you think – what's the impact of productivity and ability to kind of win additional revenues as – on the layoffs?

Todd Musterait: Yes, sure. So, after enacting the cost reduction initiatives, we've seen a fairly decent increase in our direct utilization by 10 percentage points that essentially landed at where our targeted utilization, we believe, needs to be for the business moving forward. I do believe we have the right staff makeup. But we continue, as I mentioned, to look for talent in the marketplace to help us on the technical delivery side, but also on the sales and marketing sides of the business as well.

Peter Rabover: Okay. Maybe a quick question on the backlog and revenues. You guys have, like, a sense of a historical kind of percentage of how much of your revenues comes not from backlog, but as that comes in for the year. So, if you have a backlog that maybe looks like 80% and then 20% as – comes in as needed kind of work, hypothetical.

Peter Sorci: Well, as we sit here today, I don't have the information. I don't believe we have that information available. And certainly, you could follow up with some perspective on that, but...

Todd Musterait: Yes, I just want to make sure I understand your question, Peter, a little bit better. Can you restate that?

Peter Rabover: Sure. I guess I'm just thinking that your – you guys, in terms of your visibility, right, you have your backlog, which I think is, like, $52 million for – as of January. And then I'm just curious, in addition to that, how much work would you say as a percent of your revenues that doesn't come in from – like for – from the backlog? Do you have anything that just kind of on a – in a quarterly basis?

Todd Musterait: Sure. I mean I think that it's difficult to really forecast what work is going to come in through the quarter that will replace backlog that's consumed. I will say that we've identified $24 million in unfunded contract that those are vehicles that, of course, we have a contract ceiling in place and we are funded, which is what we're reporting as our backlog.

And we have $24 million out there in unfunded backlog that we would be – we would continue to pursue, so that we could deliver on that revenue. But it does – it can be dynamic throughout the quarter depending on the quarter and the sectors, obviously.

Peter Rabover: Is that $24 million more near term or longer term?

Todd Musterait: I mean I think that's really over the course of 12 months plus in terms of when that revenue would move from unfunded to funded. But of course, there's no guarantee that, that particular funding would move into our backlog, and there's a lot of variables associated with that.

Peter Rabover: So, I'll ask one more and then I'll hop back, but maybe you can give us some color on your infrastructure business, what area of strength that you're seeing. And I think the last time we had a call, you've talked about potential partnerships with bigger players and maybe you can give us some update on that and how to participate in that.

Todd Musterait: Sure. I can provide some color and then, perhaps, we'll move on to the next question. But around infrastructure, our participation, I think, in particular in restoration, looks to be favorable for even though, they're returning restoration as our infrastructure projects that are related to resiliency and climate adoption work.

As I mentioned in my notes, in my discussion, we've seen an increase in opportunities in the West Coast around climate resiliency and climate adoption. And these projects, these planning projects have a tie into infrastructure and transportation systems. And what is the risk associated with, say, a wild fire, right? And what would that impact be on a major transportation system?

So due to the specialization that we have within the firm, we can provide services within those spaces. In some cases, those are contracts that we'll take on as the sole or prime. And in another cases, we'll look to work with larger integrated companies being accessed and to put a good solid project team together to be ready to work.

Operator: And the next question comes from the line of Randy Mehl with Stewardship Capital.

Randall Mehl: And it's – I'm sure it's nice to be out of the restatement mess at this point. I just had a couple of follow-up questions about some of the last ones that were asked. The – you listed several U.S. market opportunities in state and local funded programs, particularly energy, restoration, resilience. What needs to happen from a BD perspective or just an organizational perspective overall to really capture these?

Todd Musterait: Sure. Thanks for the question, Randy. As I mentioned earlier, as we set up our three business line structure within the organization, we have a keen eye to putting a sales force, which include sales directors and sales managers that are aligned within those business units. So, the perspective is that we have people that are looking for opportunities and selling opportunities within a specific line space.

So for example, in energy, as we look at the regional build-out – continued regional build-out of LNG and transporting that to the Gulf, that's obviously a regional player, but does require a level of specialization that we can pull from across the country to deliver on that, but having a sales force that knows the space well, know whose participating and, of course, a number of these are key clients of ours that, as I mentioned previously, we would reinforce and ensure that we're not only delivering on the work that we have today, but we're helping them further become a successful business from a B2B perspective.

Randall Mehl: Are these people in place today? Or are these largely people that you're out looking for?

Todd Musterait: I – Randy, I'd say it's a mix right now. We do have some of the sales force that's come into place that is new to the business. I mentioned a couple of names on the call. We're going to continue to look for talent in the marketplace to come into the business to fulfill these roles. We do have people in the business that – not to say that we don't have it, that are driving these sales efforts. But again, we continue to look for additional resources in those spaces.

Randall Mehl: Okay. And forgive me if I didn't catch this, if you said it, but is there a target that you're – you've thrown out that you're willing to discuss for maybe end of fiscal '19 run rate in the U.S. and international kind of a – on net revenue basis?

Peter Sorci: Unfortunately, we're not going to provide that information today. I would ask shareholders to wait until we get our SEC filings done for the fourth quarter and year-end in order to see how we did for the year.

Randall Mehl: Okay. And then in terms of those filings, are there any – is there any reads in those filings should be delayed? Or are you kind of out of the woods on that at this point?

Peter Sorci: I'd like to think that we are out of the woods, but we got these filings done, and we are well underway preparing our third quarter reports. The auditors are looking at them. The reports – the due date of those reports is next week. And we are hopeful that we will be back on track for timing quarterly filing.

Randall Mehl: Okay, okay. No, that's good. And then capital allocation priorities at this point. You've got cash on the balance sheet and expected to submit over time. How are you thinking about the dividend? I know there's still unused share repurchase out there, I think, and then the acquisition.

Marshall Heinberg: So, Randy, it's Marshall. I'm going to jump in on this one. So, I think the Board will continue to evaluate every time we meet what our policy is on the dividend. Obviously, we've been a consistent dividend payer. And we recognize the importance to shareholders, but I think we have an obligation to review our cash position and prospects every time there was a Board meeting, which we will continue to do.

I think one of the comments that we made was that I felt that prior management was looking for acquisitions to be the answer and was singularly unsuccessful at completing any. And we have our own house to keep in order and make sure that we'd start getting organic growth to what it needs to be. So, we're going to suspend acquisition activity for a period of time until we have fully established that we are right – on the right track for U.S. growth again.

Randall Mehl: That makes sense. And in terms of the dividend, obviously, it vote – you get voted every year, but is it your intent to kind of hold the line on that? Or obviously it could be increased, and you don't need to increase. So, I'm just wondering what your thoughts are there.

Marshall Heinberg: Yes. I mean it wouldn't be appropriate for me as one Board member to say what we will do. I mean, I think we certainly have an appreciation to what it means to our shareholders and the fact that we've been a consistent payer. But yes, it's a Board decision, so we'll take it up at the Board level and then make a determination every six months.

Operator: And I'm not showing any further questions at this time. I would now like to turn the call back to Todd Musterait for any further remarks.

Todd Musterait: No further remarks. I appreciate everybody calling in for our review this morning.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. And everyone, have a great day.