
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-36541

LIMBACH HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware, USA
(State or other jurisdiction of
incorporation or organization)

46-5399422
(I.R.S. Employer Identification
No.)

31 – 35th Street
Pittsburgh, Pennsylvania
(Address of principal executive offices)

15201
(Zip Code)

1-412-359-2100

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T K (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 13, 2017, there were 7,455,298 shares of the registrant's common stock, \$0.0001 par value per share, outstanding.

LIMBACH HOLDINGS, INC.

Form 10-Q

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Part I

Item 1. Financial Statements

LIMBACH HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

<i>(in thousands, except share and per share data)</i>	Successor	
	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 761	\$ 7,406
Restricted cash	113	113
Accounts receivable, net	119,395	113,972
Costs and estimated earnings in excess of billings on uncompleted contracts	29,679	31,959
Other current assets	3,798	1,733
Total current assets	153,746	155,183
Property and equipment, net of accumulated depreciation of \$7.0 million and \$2.6 million at September 30, 2017 and December 31, 2016, respectively	17,483	18,541
Intangible assets, net	14,976	17,807
Goodwill	10,488	10,488
Deferred tax asset	4,617	4,268
Other assets	497	588
Total assets	\$ 201,807	\$ 206,875
LIABILITIES		
Current liabilities		
Current portion of long-term debt	\$ 5,010	\$ 4,476
Accounts payable, including retainage	56,330	57,034
Billings in excess of costs and estimated earnings on uncompleted contracts	33,067	39,190
Accrued expenses and other current liabilities	22,823	26,029
Total current liabilities	117,230	126,729
Long-term debt	29,566	21,507
Other long-term liabilities	755	817
Total liabilities	147,551	149,053
Commitments and contingencies	-	-
Redeemable convertible preferred stock, net, par value \$0.0001, 1,000,000 shares authorized, 280,000 and 400,000 issued and outstanding at September 30, 2017 and December 31, 2016, respectively (\$7,698 and \$10,365 redemption value at September 30, 2017 and December 31, 2016, respectively)	7,779	10,374
STOCKHOLDERS' EQUITY		
Common stock, \$.0001 par value; 100,000,000 shares authorized, 7,454,602 issued and outstanding at September 30, 2017 and 7,454,491 at December 31, 2016	1	1
Additional paid-in capital	54,185	55,162
Accumulated deficit	(7,709)	(7,715)
Total stockholders' equity	46,477	47,448
Total liabilities and stockholders' equity	\$ 201,807	\$ 206,875

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements

LIMBACH HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	<u>Successor</u> <u>July 1,</u> <u>2017</u> <u>through</u> <u>September</u> <u>30, 2017</u>	<u>Successor</u> <u>July 20,</u> <u>2016</u> <u>through</u> <u>September</u> <u>30, 2016</u>	<u>Predecessor</u> <u>July 1,</u> <u>2016</u> <u>through</u> <u>July 19,</u> <u>2016</u>
<i>(in thousands, except share and per share data)</i>			
Revenue	\$ 121,299	\$ 91,889	\$ 26,924
Cost of revenue	105,889	79,818	23,770
Gross profit	<u>15,410</u>	<u>12,071</u>	<u>3,154</u>
Operating expenses:			
Selling, general and administrative expense	13,609	10,207	3,899
Amortization of intangibles	807	1,454	-
Total operating expenses	<u>14,416</u>	<u>11,661</u>	<u>3,899</u>
Operating income (loss)	994	410	(745)
Other income (expenses):			
Interest income (expense), net	(545)	(853)	(178)
Gain (loss) on disposition of property and equipment	7	(21)	4
Total other expenses	<u>(538)</u>	<u>(874)</u>	<u>(174)</u>
Income (loss) before income taxes	456	(464)	(919)
Income tax (expense) benefit	(328)	2,277	-
Net income (loss)	<u>128</u>	<u>1,813</u>	<u>(919)</u>
Dividends on cumulative redeemable convertible preferred stock	149	160	-
Premium paid on partial preferred redemption	847	-	-
Net income (loss) attributable to Limbach Holdings, Inc. common stockholders	<u>\$ (868)</u>	<u>\$ 1,653</u>	
Net income attributable to Limbach Holdings LLC member unit holders			<u>\$ (919)</u>
<u>Successor Earnings Per Share ("EPS")</u>			
Basic earnings (loss) per share for common stock:			
Net earnings (loss) attributable to Limbach common stockholders	<u>\$ (0.12)</u>	<u>\$ 0.28</u>	
Diluted earnings (loss) per share for common stock:			
Net earnings (loss) attributable to Limbach common stockholders	<u>\$ (0.12)</u>	<u>\$ 0.27</u>	
Weighted average number of shares outstanding:			
Basic	7,471,587	5,927,813	
Diluted	7,471,587	6,727,813	

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements

LIMBACH HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	<u>Successor</u> <u>January 1,</u> <u>2017</u> <u>through</u> <u>September</u> <u>30, 2017</u>	<u>Successor</u> <u>July 20,</u> <u>2016</u> <u>through</u> <u>September</u> <u>30, 2016</u>	<u>Predecessor</u> <u>January 1,</u> <u>2016</u> <u>through</u> <u>July</u> <u>19, 2016</u>
<i>(in thousands, except share and per share data)</i>			
Revenue	\$ 354,327	\$ 91,889	\$ 221,391
Cost of revenue	309,610	79,818	192,911
Gross profit	<u>44,717</u>	<u>12,071</u>	<u>28,480</u>
Operating expenses:			
Selling, general and administrative expense	40,963	10,207	24,015
Amortization of intangibles	2,831	1,454	-
Total operating expenses	<u>43,794</u>	<u>11,661</u>	<u>24,015</u>
Operating income	923	410	4,465
Other income (expenses):			
Interest income (expense), net	(1,562)	(853)	(1,898)
Gain (loss) on disposition of property and equipment	(130)	(21)	1
Total other expenses	<u>(1,692)</u>	<u>(874)</u>	<u>(1,897)</u>
Income (loss) before income taxes	(769)	(464)	2,568
Income tax benefit	352	2,277	-
Net income (loss)	<u>(417)</u>	<u>1,813</u>	<u>2,568</u>
Dividends on cumulative redeemable convertible preferred stock	631	160	-
Premium paid on partial preferred redemption	847	-	-
Net income (loss) attributable to Limbach Holdings, Inc. common stockholders	<u>\$ (1,895)</u>	<u>\$ 1,653</u>	
Net income attributable to Limbach Holdings LLC member unit holders			<u>\$ 2,568</u>
<u>Successor Earnings Per Share ("EPS")</u>			
Basic earnings (loss) per share for common stock:			
Net earnings (loss) attributable to Limbach common stockholders	<u>\$ (0.25)</u>	<u>\$ 0.28</u>	
Diluted earnings (loss) per share for common stock:			
Net earnings (loss) attributable to Limbach common stockholders	<u>\$ (0.25)</u>	<u>\$ 0.27</u>	
Weighted average number of shares outstanding:			
Basic	7,460,277	5,927,813	
Diluted	7,460,277	6,727,813	

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements

LIMBACH HOLDINGS, INC.
(Successor)
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

<i>(in thousands, except share amounts)</i>	Common Stock		Additional paid-in capital	Accumulated deficit	Stockholders' equity
	Number of shares outstanding	Par value amount			
Balance at December 31, 2016	7,454,491	\$ 1	\$ 55,162	\$ (7,715)	\$ 47,448
Dividends on redeemable convertible preferred stock			(149)	(482)	(631)
Reclassification of cumulative dividends on redeemable convertible preferred stock			(905) ⁽¹⁾	905 ⁽¹⁾	-
Partial redemption of redeemable convertible preferred stock			(847)		(847)
Stock-based compensation			924		924
Exercise of warrants	111	-	-		-
Net loss				(417)	(417)
Balance at September 30, 2017	7,454,602	\$ 1	\$ 54,185	\$ (7,709)	\$ 46,477

(1) See Note 10 – Cumulative Redeemable Convertible Preferred Stock for further discussion of the reclassification

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements

LIMBACH HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

<i>(in thousands)</i>	<u>Successor</u> <u>January 1,</u> <u>2017</u> <u>through</u> <u>September</u> <u>30, 2017</u>	<u>Successor</u> <u>July 20,</u> <u>2016</u> <u>through</u> <u>September</u> <u>30, 2016</u>	<u>Predecessor</u> <u>January 1,</u> <u>2016</u> <u>through</u> <u>July</u> <u>19, 2016</u>
Cash flows from operating activities:			
Net income (loss)	\$ (417)	\$ 1,813	\$ 2,568
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	7,383	2,789	1,582
Allowance for doubtful accounts	289	134	50
Stock based compensation expense	924	-	1,349
Capitalized deferred interest on subordinated debt	-	84	1,397
Amortization of debt issuance costs	135	52	-
Deferred tax provision	(349)	(2,667)	-
Accretion of preferred stock discount to redemption value	19	-	-
(Gain) loss on disposition of property and equipment	130	21	(1)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(5,712)	(42,855)	5,722
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	2,280	10,831	(18,698)
(Increase) decrease in other current assets	71	(251)	(662)
(Increase) decrease in other assets	1	94	(95)
Increase (decrease) in accounts payable	(704)	7,722	(6,973)
Increase (decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	(6,123)	12,857	4,276
Increase (decrease) in accrued expenses and other current liabilities	(3,206)	(6,035)	10,847
Increase (decrease) in other long-term liabilities	(62)	28	277
Net cash provided by (used in) operating activities	(5,341)	(15,383)	1,639
Cash flows from investing activities:			
Proceeds from sale of property and equipment	48	69	7
Advances to joint ventures	(1)	(1)	-
Purchase of property and equipment	(2,329)	(468)	(2,114)
Acquisition of Limbach Holdings LLC, net of cash acquired	-	(32,158)	-
Proceeds from trust account	-	19,545	-
Net cash used in investing activities	(2,282)	(13,013)	(2,107)
Cash flows from financing activities:			
Proceeds from revolving credit facility	-	16,567	60,122
Proceeds from term loan	-	24,000	-
Proceeds from subordinated debt	-	13,000	-
Payments on revolving credit facility	-	(8,301)	(63,630)
Payments on Credit Agreement term loan	(4,115)	-	-
Proceeds from Credit Agreement revolver	74,762	-	-
Payments on Credit Agreement revolver	(62,547)	-	-
Payments on term loan	(33)	(1,270)	(1,038)
Payments on subordinated debt facility	-	(23,604)	--
Payments on financed insurance premium	(1,747)	-	-
Payments of distributions	-	-	(195)
Payments on capital leases	(1,250)	(345)	(660)
Redemption of preferred stock	(4,092)	-	-
Proceeds from issuance of redeemable convertible preferred stock	-	9,948	-
Debt issuance costs	-	(1,313)	-
Net cash provided by (used in) financing activities	978	28,682	(5,401)
Increase (decrease) in cash and cash equivalents	(6,645)	286	(5,869)
Cash and cash equivalents, beginning of period – Limbach Holdings, Inc.	7,406	22	-
Cash and cash equivalents, beginning of period – Limbach Holdings LLC	-	238	6,107
Cash and cash equivalents, end of period	\$ 761	\$ 546	\$ 238
Supplemental disclosures of cash flow information			
Noncash investing and financing transactions:			
Property and equipment acquired financed with capital leases	\$ 1,344	\$ 467	\$ 1,014
Financed insurance premium	\$ 2,135	\$ -	\$ -
Interest paid	\$ 1,427	\$ 799	\$ 192

During the Successor period for the nine months ended September 30, 2017 and the period July 20, 2016 through September 30, 2016, the

Company recorded redeemable convertible preferred stock dividends totaling \$0.6 million and \$0.2 million, respectively.

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements

LIMBACH HOLDINGS, INC.**Notes to Condensed Consolidated Financial Statements (Unaudited)****Note 1 — Organization and Plan of Business Operations**

Limbach Holdings, Inc. (the “Company” or “Successor”), formerly known as 1347 Capital Corp. (“1347 Capital”), is a Delaware corporation headquartered in Pittsburgh, Pennsylvania. The Company’s Condensed Consolidated Financial Statements include the accounts of Limbach Holdings, Inc. and its wholly owned subsidiaries, including Limbach Holdings LLC (“LHLLC”), Limbach Facility Services LLC, Limbach Company LLC, Limbach Company LP, Harper Limbach LLC and Harper Limbach Construction LLC.

The Company was originally incorporated as a special purpose acquisition company, formed for the purpose of effecting a merger, equity interest exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses. On July 20, 2016, the Company consummated a business combination (“Business Combination”) with LHLLC pursuant to the agreement and plan of merger dated as of March 23, 2016, by and among 1347 Capital Corp. (now Limbach Holdings, Inc.), LHLLC and FdG HVAC LLC (“FdG”), as stockholders’ representative (the “Merger Agreement”). In connection with the closing of the Business Combination, the Company changed its name from 1347 Capital Corp. to Limbach Holdings, Inc. See Note 4 – Business Combination for further discussion.

We operate our business in two segments, (i) Construction, in which we generally manage large construction or renovation projects that involve primarily HVAC, plumbing and electrical services, and (ii) Service, in which we provide maintenance or service primarily on HVAC, plumbing or electrical systems. This work is primarily performed under fixed price, modified fixed price, and time and material contracts over periods of typically less than two years. The Company’s customers operate in several different industries, including healthcare, education, government, commercial, manufacturing, entertainment, and leisure. The Company operates primarily in the Northeast, Mid-Atlantic, Southeast, Midwest, and Southwestern regions of the United States.

Emerging Growth Company

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of Company’s financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Note 2 — Significant Accounting Policies

Basis of Presentation

Condensed Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with instructions to the Quarterly Report on Form 10-Q and Rule 8-03 of Regulation S-X for smaller reporting companies. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. Readers of this report should refer to the consolidated financial statements and the notes thereto included in our latest Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”).

Predecessor and Successor Financial Statements

The Condensed Consolidated Financial Statements and certain note presentations separate the Company’s presentations into two distinct periods, the period up to and including the Business Combination closing date (labeled “Predecessor”) and the period after that date (labeled “Successor”), to indicate the application of different bases of accounting between the periods presented. The accompanying Condensed Consolidated Financial Statements include a black line division which indicates that the Predecessor and Successor reporting entities shown are not comparable. The period presented from January 1, 2017 through September 30, 2017, July 20, 2016 through September 30, 2016 and at December 31, 2016 are the “Successor” periods. The period presented from January 1, 2016 through July 19, 2016 is the “Predecessor” period.

Unaudited Interim Financial Information

The accompanying interim Condensed Consolidated Balance Sheet, the Condensed Consolidated Statements of Operations, Condensed Consolidated Statement of Stockholders’ Equity and the Condensed Consolidated Statements of Cash Flows for the periods presented are unaudited. Also, within the notes to the Condensed Consolidated Financial Statements, we have included unaudited information for these interim periods. These unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with GAAP.

In our opinion, the accompanying unaudited consolidated financial statements contain all adjustments (consisting only of a normal recurring nature) necessary for a fair statement of the Company’s financial position as of September 30, 2017 and September 30, 2016, and its results of operations and its cash flows for the periods presented. The results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

The Successor Condensed Consolidated Balance Sheet as of December 31, 2016 was derived from audited financial statements, but is presented as condensed and does not contain all of the footnote disclosures from the annual financial statements.

Revenues and Cost Recognition

Revenues from fixed price and modified fixed price contracts are recognized on the percentage-of-completion method, measured by the relationship of total cost incurred to total estimated contract costs (cost-to-cost method). Revenues from time and materials contracts are recognized as services are performed. Contract revenue for long-term construction contracts is based upon management’s estimate of contract values at completion, including revenue for additional work on which the contract value has not been finalized (claims and unapproved change orders) but is considered probable. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined.

Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined. One of our operating locations recorded revisions in its contract estimates for two projects resulting in gross profit write downs totaling \$2.6 million for the three months ended September 30, 2017 and \$3.1 million for the first nine months of 2017. One of our other operating locations recorded a revision in contract estimate on a project resulting in a gross profit write down of \$0.5 million for both the three and nine month periods ended September 30, 2017. The Company is evaluating potential recovery options for some of the write downs recognized in the three and nine month periods ended September 30, 2017, but is not currently in a position to recognize any potential recoveries in its financial statements. Another of our operating locations recorded revisions in its contract estimates on a project resulting in gross profit write ups totaling \$0.9 million and \$1.8 million for the respective three and nine month periods ended September 30, 2017.

Contract costs include direct labor, material, and subcontractor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, depreciation, and insurance. Total estimated contract costs are based upon management’s current estimate of total costs at completion.

The Company recognizes revenues from its service segment contracts as these services are performed. There are two basic types of service contracts: fixed price service contracts which are signed in advance for maintenance, repair, and retrofit work over a period of typically one year, and service contracts not signed in advance for similar maintenance, repair, and retrofit work performed on an as-needed basis. Fixed price service contracts are generally performed evenly over the contract period, and accordingly, revenue is recognized on a pro rata basis over the life of the contract. Revenues derived from other service contracts are recognized when the services are performed. Expenses related to all service contracts are recognized as services are provided.

Costs and estimated earnings in excess of billings on uncompleted contracts reflected in the consolidated balance sheets arise when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Also included in costs and estimated earnings on uncompleted contracts are amounts the Company seeks or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price, or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Such amounts are recorded at estimated net realizable value when realization is probable and can be reasonably estimated. No profit is recognized on the construction costs incurred in connection with claim amounts. Claims and unapproved change orders made by the Company may involve negotiation and, in rare cases, litigation. Claims and unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded claims and unapproved change orders may be made in the near term. Claims against the Company are recognized when a loss is considered probable and amounts are reasonably determinable. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenues recognized.

In accordance with industry practice, we classify as current all assets and liabilities relating to the performance of contracts. The terms of our contracts generally range from six months to two years.

Selling, general, and administrative costs are charged to expense as incurred. Bidding and proposal costs are also recognized as an expense in the period in which such amounts are incurred.

Note 3 – Accounting Standards

Recent Accounting Pronouncements

The effective dates shown in the following pronouncements are private company effective dates, based upon the Company's election to conform to private company effective dates based on the relief provided to Emerging Growth Companies ("EGC") under the JOBS Act.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers—Topic 606," which supersedes the revenue recognition requirements in FASB Accounting Standard Codification ("ASC") 605. The new guidance established principles for reporting revenue and cash flows arising from an entity's contracts with customers. This new revenue recognition standard will replace all of the recognition guidance within GAAP. This guidance was deferred by ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, issued by the FASB in August 2015, which deferred the effective date of ASU 2014-09 from annual and interim periods beginning after December 15, 2017 to annual and interim periods beginning after December 15, 2018. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations, which further clarifies the implementation guidance in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, Revenues from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, which amends the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. The amendments are intended to address implementation issues that were raised by stakeholders and provide additional practical expedients to reduce the cost and complexity of applying the new revenue standard. The guidance can be applied on a full retrospective or modified retrospective basis whereby the entity records a cumulative effect of initially applying this update at the date of initial application. In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers" intended to clarify the codification or to correct unintended application of the guidance which clarifies the definition of loan guarantee fees, what should be considered in contract costs impairment testing, a requirement that provisions for losses on construction-type and production-type contracts be determined at the least at the contract level, exclusion of insurance contracts from scope, specific disclosures regarding remaining performance obligations, disclosure of prior-period performance obligations and gives an example of contract modifications. These standards are required to be implemented by the Company for its fiscal year beginning January 1, 2019, including interim periods within that reporting period. Since the Company has not yet commenced its analysis of the new revenue recognition standard or selected the basis on which it will be applied, we cannot estimate the impact of its adoption on the Condensed Consolidated Financial Statements. Beginning in the third quarter of 2017, we initiated a request for proposal to identify a firm to assist the Company in evaluating the impact of the new pronouncement on our contracts. The Company expects to select a firm to provide this assistance during the fourth quarter of 2017. During the first quarter of 2018, we expect to commence our assessment of the new standard, which will include a review of our various types of revenue arrangements, consideration of our existing accounting policies and an evaluation of the effects of the new disclosure requirements on our business processes, controls and systems.

In February 2016, FASB issued ASU No. 2016-02, “Leases (Topic 842),” ASU 2016-02 provides an approach for classifying leases as either finance leases or operating leases. For either classification, a right-of-use asset and a lease liability will be required to be recognized, unless the term of the lease is one year or less. The guidance is required to be applied using a modified retrospective approach which includes optional practical expedients. It is effective for annual periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Earlier application is permitted. The Company has not yet commenced its analysis of this standard and therefore cannot estimate the impact of its adoption on the Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting” to simplify accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Company early adopted this standard during the quarter ended September 30, 2017, and accordingly, followed such guidance when accounting for the stock-based compensation awards which were granted by the Company during the quarter ended September 30, 2017. The adoption of this standard had no other impact on the Condensed Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments” to address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments should be applied using a retrospective transition method to each period presented. The Company early adopted this standard during the quarter ended September 30, 2017, and accordingly, followed such guidance when accounting for the stock-based compensation awards which were granted by the Company during the quarter ended September 30, 2017. The adoption of this standard had no other impact on the Condensed Consolidated Financial Statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows: Restricted Cash” to address diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2018, and for interim periods beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the year that includes that interim period. The Company is currently evaluating this standard to determine the impact on the Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a screen to determine when a set of assets and activities is not a business. If the screen is not met, the amendments require further consideration of inputs, substantive processes and outputs to determine whether the transaction is an acquisition of a business. This guidance is effective for financial statements issued for annual periods beginning after December 15, 2018, and for interim periods within annual periods beginning after December 15, 2019. The amendments in this update are to be applied prospectively on or after the effective date. The Company is currently evaluating this standard to determine the impact on its Consolidated Financial Statements.

Also, in January 2017, the FASB issued ASU 2017-03, “Accounting Changes and Error Corrections (Topic 250) and Investments–Equity Method and Joint Ventures (Topic 323)” which applies to ASU 2014-09 and ASU 2016-02 and provides an SEC staff view that a Company must evaluate ASUs not yet adopted to determine the appropriate financial statement disclosures about the potential material impacts of those ASUs on the financial statements when adopted in a future period according to Staff Accounting Bulletin (“SAB”) Topic 11.M. If the Company does not know or cannot reasonably estimate the impact that adoption of the ASU is expected to have on the financial statements, a statement should be made to that effect and additional qualitative financial statement disclosures should be made to assist the financial statement reader in assessing the significance of the impact that the standard will have on the financial statements when adopted. This guidance was effective upon issuance and has been adopted.

In January 2017, the FASB issued ASU 2017-04, “Intangibles–Goodwill and Other - Simplifying the Test for Goodwill Impairment” to address the cost and complexity of the goodwill impairment test which resulted in the elimination of Step 2 from the goodwill impairment test. Step 2 measured a goodwill impairment loss by comparing the implied fair value of goodwill by assigning fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Rather, the Company would be required to do its annual and interim goodwill impairment tests by comparing the fair value of the reporting unit with its carrying amount and to recognize an impairment charge for the amount by which the carrying amount is greater than the reporting unit’s fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Income tax effects measuring the goodwill impairment loss, if applicable, from any tax deductible goodwill on the carrying amount on the reporting unit should also be considered. The guidance is effective for financial statements issued for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments in this Update are to be applied on a prospective basis along with a disclosure of the nature and reason for the change in accounting principle upon initial adoption. The Company is currently evaluating this standard to determine the impact on the Consolidated Financial Statements.

Note 4 – Business Combination

On July 20, 2016, pursuant to the Merger Agreement, a wholly owned subsidiary of the Company merged with and into LHLLC in a transaction accounted for as a business combination. Following this transaction, 1347 Capital changed its name to Limbach Holdings, Inc.

LHLLC’s equity holders and option holders received consideration comprised of (a) \$32.4 million in cash, (b) 2,200,005 shares of Company common stock with a fair value of \$17.5 million, (c) 666,670 merger warrants, each exercisable for one share of Company common stock at an exercise price of \$12.50 per share with a fair value of \$0.5 million, and (d) 1,000,006 additional warrants, each exercisable for one share of Company common stock at an exercise price of \$11.50 per share, with a fair value of \$0.6 million. Certain of the shares and warrants are subject to lockup agreements and securities law restrictions. Total cash paid, including the additional share-based compensation, was \$33.0 million.

As part of the consideration in the Business Combination, the Company issued shares of common stock to LHLLC’s equity holders pursuant to an effective registration statement and Merger Warrants (as defined below) and Additional Merger Warrants (as defined below) pursuant to a private placement under Section 4(a)(2) of the Securities Act of 1933, as amended (“Securities Act”). Securities Act restrictions on the resale of such securities constitute a security-specific restriction under fair value guidance; therefore, a price adjustment to the fair value is appropriate for affiliates of the Company who own in excess of 10% of the outstanding securities. Fair value determinations for the securities used as consideration are valued at market prices, unless they have a security-specific restriction. Fair value determination for securities with security-specific restrictions under federal securities laws incorporate a price adjustment to the market price.

The final valuations of assets acquired and liabilities assumed were:

<i>(in thousands)</i>	As of July 20, 2016
Cash and cash equivalents	\$ 238
Restricted cash	63
Accounts receivable	80,930
Property and equipment	20,990
Intangible assets	20,910
Costs and estimated earnings in excess of billings on uncompleted contracts	38,215
Other current assets	2,272
Other assets	130
Advances to and equity in joint ventures, net	6
Deferred tax assets	380
Total assets acquired	164,134
Accounts payable, including retainage	35,596
Accrued expenses and other current liabilities	26,507
Billings in excess of costs on and estimated earnings on uncompleted contracts	30,068
Long-term debt	30,858
Other long term liabilities	645
Total liabilities assumed	123,674
<i>Net assets acquired</i>	\$ 40,460

Direct transaction-related costs consisted of costs incurred in connection with the Merger Agreement and the Business Combination. These costs, totaling \$0.1 million for the period from July 20, 2016 through September 30, 2016 (Successor), are reflected in selling, general and administrative expenses in the respective Condensed Consolidated Statement of Operations. 1347 Capital also incurred transaction costs of \$5.9 million independently prior to the Business Combination, and since 1347 Capital is not consolidated with the Predecessor (see Note 2 – Basis of Presentation), those costs are not reflected in the Predecessor financial statements, but are disclosed herein.

Additional costs consisting of stock option and other compensation-related expenses were recorded in connection with the Business Combination. These costs, totaling \$0.6 million for the period from July 20, 2016 through September 30, 2016 (Successor), and \$1.5 million for the period July 1, 2016 through July 19, 2016 (Predecessor), are reflected in selling, general and administrative expenses in the respective Condensed Consolidated Statements of Operations. This Predecessor amount reflects compensation expense associated with stock options which became fully vested and exercisable in connection with the Business Combination.

The following unaudited pro forma financial information summarizes the combined results of operations for the Company as though the Business Combination had occurred on January 1, 2015:

<i>(in thousands)</i>	For the nine months ended September 30, 2016
Pro forma revenues	\$ 313,280
Pro forma net loss attributable to common shareholders	\$ (848)

The pro forma financial information does not include any costs related to the Business Combination. In addition, the pro forma financial information does not assume any impacts from revenue, cost or other operating synergies that could be generated as a result of the Business Combination. The unaudited pro forma financial information is not necessarily indicative of what the Company's results would have been had the Business Combination been consummated on such dates or project results of operations for any future period.

The following pro forma adjustments were incorporated into the presentation:

1. Successor and Predecessor periods have been combined in the pro forma for the nine months ended September 30, 2016.
2. Transaction costs related to the Business Combination were eliminated.
3. Intangible amortization is based on the economic values derived from definite-lived intangible assets.
4. Depreciation is incorporated based on the new fair values and estimated useful lives of fixed assets.
5. Interest expense is recognized on new debt financing.
6. Preferred dividends are recognized on the new issue of cumulative redeemable convertible preferred stock.
7. Statutory provision for income taxes was used.
8. The activities of 1347 Capital have been excluded for the period from January 1, 2016 through July 19, 2016 because it was not consolidated and its operations were considered to be de minimus.

Note 5 – Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable and the allowance for uncollectible accounts are comprised of the following:

<i>(in thousands)</i>	Successor	
	September 30, 2017	December 31, 2016
Accounts receivable – trade	\$ 94,614	\$ 90,296
Retainage	25,076	23,868
Allowance for doubtful accounts	(295)	(192)
Accounts receivable, net of allowance for doubtful accounts	<u>\$ 119,395</u>	<u>\$ 113,972</u>

Note 6 – Contracts in Progress

<i>(in thousands)</i>	Successor	
	September 30, 2017	December 31, 2016
Revenue earned on uncompleted contracts	\$ 625,603	\$ 532,549
Less: Billings to date	(628,991)	(539,780)
Net overbilling	<u>\$ (3,388)</u>	<u>(7,231)</u>

The above is reflected in the accompanying condensed consolidated balance sheets as follows:

Costs and estimated earnings in excess of billing on uncompleted contracts	\$ 29,679	\$ 31,959
Billings in excess of costs and estimated earnings on uncompleted contracts	(33,067)	(39,190)
Net overbilling	<u>\$ (3,388)</u>	<u>\$ (7,231)</u>

Accounts payable includes retainage due to subcontractors totaling \$9.9 million and \$8.9 million as of September 30, 2017 and December 31, 2016, respectively.

The Company has asserted claims and may have unapproved change orders on certain construction projects. These occur typically as a result of scope changes and project delays. Management evaluates these items and estimates the recoverable amounts. If significant, these recoverability estimates are evaluated to determine the net realizable value. If additional amounts are recovered, additional contract revenue would be recognized.

Note 7 – Intangibles

Goodwill was \$10.5 million at September 30, 2017 (Successor) and December 31, 2016 (Successor). There has been no change in the carrying amount of the trade name since December 31, 2016 (Successor).

Intangible assets, excluding goodwill, are comprised of the following:

<i>(in thousands)</i>	Successor		
	Gross carrying amount	Accumulated amortization	Net intangible assets, excluding goodwill
September 30, 2017			
Amortized intangible assets:			
Backlog – Construction	\$ 4,830	\$ (3,811)	\$ 1,019
Backlog – Service	880	(880)	-
Customer Relationships - Service	4,710	(1,161)	3,549
Favorable Leasehold Interests	530	(82)	448
Total amortized intangible assets	<u>10,950</u>	<u>(5,934)</u>	<u>5,016</u>
Unamortized intangible assets:			
Trade Name	9,960	—	9,960
Total unamortized intangible assets	<u>9,960</u>	<u>—</u>	<u>9,960</u>
Total amortized and unamortized assets, excluding goodwill	<u>\$ 20,910</u>	<u>\$ (5,934)</u>	<u>\$ 14,976</u>

<i>(in thousands)</i>	Successor		
	Gross carrying amount	Accumulated amortization	Net intangible assets, excluding goodwill
December 31, 2016			
Amortized intangible assets:			
Backlog – Construction	\$ 4,830	\$ (2,222)	\$ 2,608
Backlog – Service	880	(398)	482
Customer Relationships - Service	4,710	(452)	4,258
Favorable Leasehold Interests	530	(31)	499
Total amortized intangible assets	<u>10,950</u>	<u>(3,103)</u>	<u>7,847</u>
Unamortized intangible assets:			
Trade Name	9,960	—	9,960
Total unamortized intangible assets	<u>9,960</u>	<u>—</u>	<u>9,960</u>
Total amortized and unamortized assets, excluding goodwill	<u>\$ 20,910</u>	<u>\$ (3,103)</u>	<u>\$ 17,807</u>

Total amortization expense for these amortizable intangible assets was \$2.8 million for the nine months ended September 30, 2017 (Successor) and \$1.5 million for the period July 20, 2016 through September 30, 2016 (Successor). There were no intangible assets in the Predecessor period, and accordingly, there was no amortization expense. The Company did not recognize any impairment charges related to definite and indefinite-lived intangible assets during the nine months ended September 30, 2017 (Successor) or for the period July 20, 2016 through September 30, 2016 (Successor).

Note 8 – Debt

Long-term debt consists of the following obligations as of:

<i>(in thousands)</i>	Successor	
	September 30, 2017	December 31, 2016
Credit Agreement – revolver	\$ 12,215	\$ -
Credit Agreement – term loan payable in quarterly installments of principal, plus interest through 2021	18,385	22,500
Casualty insurance premium financing	388	-
State of Ohio loan- payable in monthly installments of principal, plus interest at 3% through 2017	-	33
Capital leases – collateralized by vehicles, payable in monthly installments of principal, plus interest ranging from 4.9% to 5.4% through 2021	3,813	3,719
Total debt	<u>34,801</u>	<u>26,252</u>
Less - Current portion	(5,010)	(4,476)
Less - Debt issuance costs	(225)	(269)
Long-term debt	<u>\$ 29,566</u>	<u>\$ 21,507</u>

Successor

Credit Agreement

In conjunction with the completion of the Business Combination, all amounts outstanding under LHLLC's prior senior credit facility were paid in full and a subsidiary of the Company, Limbach Facility Services LLC ("LFS"), entered into a new senior credit facility with multiple lenders (the "Credit Agreement"). The Credit Agreement consists of a \$25.0 million revolving line of credit and a \$24.0 million term loan, both with a maturity date of July 20, 2021. It is collateralized by substantially all assets of LFS and its subsidiaries. Principal payments of \$750,000 on the term loan are due quarterly commencing with the calendar quarter ended September 30, 2016, and ending with the calendar quarter ending June 30, 2018. Principal payments of \$900,000 are due at the end of subsequent quarters through maturity of the loan, with any remaining amounts due at maturity. During June 2017, the Company voluntarily made an additional principal payment of \$1,865,000 on its term loan. Outstanding borrowings on both the term loan and the revolving line of credit bear interest at either the Base Rate (as defined in the Credit Agreement) or LIBOR (as defined in the Credit Agreement), plus the applicable additional margin, payable monthly. At September 30, 2017, the interest rate in effect on the term loan was 4.77% and 6.75% on the revolver.

The Credit Agreement includes restrictions on, among other things and subject to certain exceptions, the Company and its subsidiaries' ability to incur additional indebtedness, pay dividends or make other distributions, redeem or purchase capital stock, make investments and loans and enter into certain transactions, including selling assets, engaging in mergers or acquisitions and entering into transactions with affiliates.

The Credit Agreement requires that the Company comply with certain financial performance covenants including total leverage, senior leverage, fixed charges and tangible net worth. As of September 30, 2017, the Company was not in compliance with the senior leverage covenant under the Credit Agreement. The lender has waived its call right arising from the noncompliance as of September 30, 2017, while reserving its rights with respect to covenant compliance in future quarters. The Company believes that it will be in compliance with this covenant in future quarters. As a result of having obtained a waiver, management estimates no impact of this covenant violation on the Company's financial condition and liquidity.

Mandatory prepayments are required upon the occurrence of certain events, including, among other things and subject to certain exceptions, equity issuances, changes of control of the Company, certain debt issuances, assets sales and excess cash flow. Effective January 1, 2017, the Company was required to remit an amount equal to 50% of its excess cash flow (as defined in the Credit Agreement), which percentage will be reduced based on the Senior Leverage Ratio (as defined therein). The Company may voluntarily prepay the loans at any time subject to the limitations set forth in the Credit Agreement.

The equity interests of the Company's subsidiaries have been pledged as security for the obligations under the Credit Agreement. The Credit Agreement includes customary events of default, including, among other items, payment defaults, cross-defaults to other indebtedness, a change of control default and events of default with respect to certain material agreements. Additionally, with respect to the Company, an event of default occurs if the Company's securities cease to be registered with the SEC pursuant to Section 12(b) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). In case of an event of default, the administrative agent would be entitled to, among other things, accelerated payment of amounts due under the Credit Agreement, foreclose on the equity of the Company's subsidiaries, and exercise all rights of a secured creditor on behalf of the lenders.

The additional margin applied to both the revolver and term loan is determined based on levels achieved under the Company's Senior Leverage Ratio covenant, which reflects the ratio of indebtedness divided by EBITDA for the most recently ended four quarters.

The following is a summary of the additional margin and commitment fees payable on the available revolving credit commitment:

Level	Senior Leverage Ratio	Additional Margin for Base Rate loans	Additional Margin for Libor Rate loans	Commitment Fee
I	Greater than or equal to 2.50 to 1.00	3.00%	4.00%	0.50%
	Less than 2.50 to 1.00, but greater than or equal to 2.00 to 1.00			
II	2.00 to 1.00	2.75%	3.75%	0.50%
	Less than 2.00 to 1.00, but greater than or equal to 1.50 to 1.00			
III	1.50 to 1.00	2.50%	3.50%	0.50%
IV	Less than 1.50 to 1.00	2.25%	3.25%	0.50%

The Company had \$8.5 million of availability under its revolving credit facility at September 30, 2017.

Subordinated Debt

In conjunction with the completion of the Business Combination, the Company's prior subordinated debt was paid in full and LFS entered into a new subordinated debt agreement. The new subordinated debt agreement consisted of a \$13.0 million loan with a maturity date of July 20, 2022 (the "Subordinated Loan"). Principal payments were not required prior to maturity. Outstanding borrowings bore interest at 16.0%, with 13.0% payable quarterly in cash, and the Company had the option either to pay the remaining 3.0% in cash or have it deferred and capitalized into the Subordinated Loan balance. On December 21, 2016, the Company repaid all amounts outstanding under the Subordinated Loan Agreement in full settlement thereof, including deferred interest and prepayment penalties, totaling \$15.3 million, with the proceeds of the Company's public offering of 1,405,500 shares of its common stock at a price of \$13.50 per share.

Predecessor

Senior Credit Facility

The Predecessor had a senior credit facility with a single lender. The revolving credit facility permitted borrowings up to \$30.0 million. In January 2016, the credit facility was increased to \$35.0 million and the maturity date was extended to May 2018. It was collateralized by substantially all of the Company's assets except for real property. The credit facility contained certain restrictive covenants, which, among other things, required the Company to maintain certain financial ratios. The credit facility also contained cross-default provisions related to the subordinated debt facility and the underwriting agreement with the Company's surety. In January 2016, the term loan was converted into a "draw term" loan facility and the amount of the facility was increased to \$7.5 million, of which \$5.5 million was available to be drawn in increments not to exceed \$2.0 million.

A commitment fee was payable on the average daily unused amount of the senior credit facility. The fee was 0.4% of the unused amount.

Note 9 – Equity

The Company's second amended and restated certificate of incorporation currently authorizes the issuance of 100,000,000 shares of common stock, par value \$0.0001, and 1,000,000 shares of preferred stock, par value \$0.0001. Prior to the Business Combination, there were 5,948,000 shares of common stock issued and outstanding.

In connection with its initial public offering in July 2014, the Company sold 4,798,000 units comprised of one common share, one warrant, and one right to automatically obtain one-tenth of a common share upon the consummation of a business combination. At the time of the Business Combination, these 4,798,000 outstanding rights were automatically converted into 479,800 common shares.

On December 21, 2016, the Company closed on its public offering of 1,780,500 shares of common stock of the Company at a price to the public of \$13.50 per share, for gross proceeds of \$22.8 million. The Company sold 1,405,500 shares, including 153,907 shares pursuant to the partial exercise of the underwriters' overallocation option, and a selling stockholder sold 375,000 shares. The net proceeds to the Company from this sale of shares, after deducting the underwriting discounts and other offering expenses, was approximately \$17.2 million.

At September 30, 2017, the Company had outstanding warrants exercisable for 4,664,901 shares of common stock, consisting of: (i) 4,600,000 Public Warrants; (ii) 198,000 warrants, each exercisable for one-half of one share of common stock at an exercise price of \$5.75 per half share (\$11.50 per whole share) ("Sponsor Warrants"); (iii) 600,000 warrants, each exercisable for one share of common stock at an exercise price of \$15.00 per share ("15 Exercise Price Warrants"); (iv) 666,360 warrants, each exercisable for one share of common stock at an exercise price of \$12.50 per share ("Merger Warrants"); and (v) 999,541 warrants, each exercisable for one share of common stock at an exercise price of \$11.50 per share ("Additional Merger Warrants"). At December 31, 2016, the Company had outstanding warrants exercisable for 4,665,676 shares of common stock.

The Public Warrants, Sponsor Warrants and \$15 Exercise Price Warrants were issued under a warrant agreement dated July 15, 2014, between Continental Stock Transfer & Trust Company, as warrant agent, and us. The Merger Warrants and Additional Merger Warrants were issued to the sellers of LHLLC.

On July 21, 2014, a total of 300,000 Unit Purchase Options (“UPOs”) were issued by 1347 Capital to a representative of the underwriter and its designees. In December 2016, the Company issued 121,173 shares of common stock in connection with the cashless exercise of 282,900 of these UPOs. At September 30, 2017 and December 31, 2016, a total of 17,100 UPOs were outstanding and will be exercisable, either for cash or on a cashless basis, through July 21, 2019.

On May 2, 2017, the Company issued 111 shares of common stock in connection with the cashless exercise of 310 Merger Warrants and 465 Additional Merger Warrants.

On August 30, 2017, the Compensation Committee of the Board of Directors of the Company granted an aggregate of 374,433 restricted stock units (“RSUs”) under the Limbach Holdings, Inc. Omnibus Incentive Plan to certain executive officers, non-executive employees and non-employee directors of the Company in the forms of an inaugural RSU award to executives (the “Inaugural RSU Award”), an annual long-term incentive RSU award (the “LTI RSU Award”), and an RSU award to non-employee directors (“Director RSU Award”). A total of 800,000 shares of the Company’s common stock were authorized and reserved for issuance under this plan. The Inaugural RSU Awards contain two different grants—one service-based and one performance-based, while the LTI RSU Awards and Director RSU Awards each only include service-based grants. As a result, the Company recognized \$924 thousand in stock-based compensation as selling, general and administrative expenses in its Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017. As of September 30, 2017, unrecognized compensation expense totaling \$3.1 million associated with the RSUs is expected to be recognized through December 31, 2019. The Board has also approved 66,500 performance-based RSUs under the LTI RSU Award; however, a grant date has not yet been established because the underlying performance measures have not yet been determined and communicated to the awardees.

Note 10 – Cumulative Redeemable Convertible Preferred Stock

The Company’s second amended and restated certificate of incorporation authorizes the issuance of 1,000,000 shares of preferred stock with such designation, rights and preferences as may be determined from time to time by its board of directors. In connection with the Business Combination, the Company issued 400,000 shares of Class A preferred stock (the “Preferred Stock”) on July 20, 2016. Each share of Preferred Stock may be converted (at the holder’s election) into 2.00 shares of the Company’s common stock (as may be adjusted for any stock splits, reverse stock splits or similar transactions), representing a conversion price of \$12.50 per share; provided, that such conversion is in compliance with NASDAQ’s listing requirements. The Preferred Stock ranks senior to all classes and series of outstanding capital stock. The Company has agreed to not issue any other shares of capital stock that rank senior or pari passu to the Preferred Stock while the Preferred Stock is outstanding, unless at least 30% of the proceeds from such issuance are used to redeem Preferred Stock. The holders of the Preferred Stock will, in priority to any other class or series of capital stock, be entitled to receive, as and when declared by the board of directors fixed, cumulative, preferential dividends at a rate of: (i) 8% per annum in years one through three from issuance; (ii) 10% per annum in years four through five from issuance; and (iii) 12% per annum thereafter, payable in equal quarterly installments. Dividends on outstanding Preferred Stock will accrue from day to day from the date of issuance of the Preferred Stock. No dividends may be made in excess of the accrued and unpaid preferred yield in respect of the Preferred Stock.

So long as the Preferred Stock is outstanding, the Company is restricted from repurchasing, redeeming or retiring any shares of its capital stock other than the Preferred Stock. In the event of liquidation, dissolution or winding up, the holders of the Preferred Stock will be entitled to receive \$25.00 per share of Preferred Stock, plus accrued but unpaid dividends thereon, whether declared or not, before any amount is paid or any assets are distributed to holders of junior capital stock. After payment to the holders of Preferred Stock of the liquidation amounts, such holders shall not be entitled to share in any further distribution payment in respect of the assets of the Company. The Company will redeem all outstanding shares of Preferred Stock on the six-year anniversary from the date of issuance for the price of \$25.00 per share of Preferred Stock (as may be adjusted for any stock splits, reverse stock splits or similar transactions), plus accrued but unpaid dividends thereon, whether or not declared, up to and including the date specified for redemption. The holders are not entitled to vote.

On July 14, 2017, the Company entered into a preferred stock repurchase agreement (the “Preferred Stock Repurchase Agreement”) with 1347 Investors LLC (“1347 Investors”) pursuant to which (a) the Company repurchased from 1347 Investors a total of 120,000 shares of the Preferred Stock for an aggregate sum of \$4,092,153 in cash, (b) for a period of six months after such repurchase, the Company will have the right to repurchase from 1347 Investors, in one or more transactions, all or a portion of the remaining 280,000 shares of Preferred Stock owned by 1347 Investors for a purchase price equal to 130% of the liquidation value per share plus 130% of any and all accrued but unpaid dividends thereon as of the date of closing of the purchase of such shares and (c) 1347 Investors will not, with respect to the 509,500 shares of common stock held in escrow pursuant to its current lock-up arrangement that expired on July 20, 2017, sell or otherwise transfer such shares of common stock during the period from such expiration through October 20, 2017.

This repurchase was funded through permitted borrowings under the Company's revolving credit facility and closed on July 14, 2017. The Company has retired the repurchased shares.

Through June 30, 2017, dividends on redeemable convertible preferred stock were reflected as an increase to accumulated deficit. During the third quarter 2017, a reclassification of approximately \$905 thousand was made to reflect cumulative dividends as a decrease to additional paid-in capital given the Company's accumulated deficit position. There is no impact to historically reported net income, earnings per share or its statement of cash flows.

Note 11 - Fair Value Measurements

Accounting guidance defines fair value as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. Under this guidance, valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, this guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 — inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — significant unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company believes that the carrying amounts of its financial instruments, including cash and cash equivalents, trade accounts receivable and accounts payable consist primarily of instruments without extended maturities, which approximate fair value primarily due to their short-term maturities and low risk of counterparty default. As of September 30, 2017, the Company determined the fair value of its senior credit facility term loan at \$18.4 million and its revolver loan at \$12.2 million. Such fair value is determined using discounted estimated future cash flows using level 3 inputs.

Note 12 - Earnings per Share

The Successor's computations of diluted EPS for the three and nine-month periods ended September 30, 2017 excluded 560,000 potential common shares related to the Preferred Stock due to its antidilutive effects under the if-converted method.

For the three months ended September 30, 2017, the Successor's computation of diluted EPS also excluded 345,013 potential shares underlying warrants, which were "in the money" (i.e., the average market price exceeded the exercise price), but would have had an antidilutive effect under the treasury stock method for that period. Excluded from the diluted EPS calculation for the three months ended September 30, 2017 were 17,100 remaining UPOs (issued in 2014) and 176,967 unvested RSUs because their effect also would have been antidilutive.

For the nine months ended September 30, 2017, the Successor's computation of diluted EPS also excluded 459,978 potential shares underlying warrants, which were "in the money" (i.e., the average market price exceeded the exercise price), but would have had an antidilutive effect under the treasury stock method for that period. Excluded from the diluted EPS calculation for the nine months ended September 30, 2017 were 17,100 remaining UPOs (issued in 2014) and 176,967 unvested RSUs because their effect also would have been antidilutive.

Warrants to purchase 600,000 shares of common stock at \$15.00 per share were outstanding but were not included in the computation of diluted EPS because the warrants' exercise price was greater than the average market price of the shares of common stock for the three months and nine months ended September 30, 2017 (in accordance with ASC 260-10-55-3). These warrants, which expire on various dates through July 20, 2023, were still outstanding at September 30, 2017.

<i>(in thousands, except per share amounts)</i>	Three months ended September 30, 2017	Nine months ended September 30, 2017	July 20, 2016 through September 30, 2016
EPS numerator:			
Net income (loss)	\$ 128	\$ (417)	\$ 1,813
Less: Premium paid on partial preferred redemption	(847)	(847)	-
Less: Undistributed preferred stock dividends	(149)	(631)	(160)
Net income (loss) attributable to Limbach Holdings, Inc. common stockholders	<u>\$ (868)</u>	<u>\$ (1,895)</u>	<u>\$ 1,653</u>
EPS denominator:			
Weighted average shares outstanding – basic	7,472	7,460	5,928
Weighted average shares outstanding – diluted	7,472	7,460	6,728
Basic EPS attributable to common stockholders:			
Net earnings (loss) attributable to Limbach Holdings, Inc. common stockholders	<u>\$ (0.12)</u>	<u>\$ (0.25)</u>	<u>\$ 0.28</u>
Diluted EPS attributable to common stockholders:			
Net earnings (loss) attributable to Limbach Holdings, Inc. common stockholders	<u>\$ (0.12)</u>	<u>\$ (0.25)</u>	<u>\$ 0.27</u>

Predecessor

The Company has not presented predecessor earnings per member unit information because it is not meaningful or comparable to the required Successor EPS information, as well as the fact that Predecessor units were not publicly traded.

Note 13 – Income Taxes

The Company is taxed as a C Corporation. The historical audited financial results and other Predecessor financial information included herein reflect the Predecessor results as a limited liability company, which was taxed as a partnership for federal income tax purposes and not at the entity level. Following the Business Combination, LHLLC was treated as a disregarded entity (i.e., a business entity that is separate from its owner for liability purposes but is the same as its owner for income tax purposes); therefore, the financial results include the effects of federal and state income taxes at the parent level.

For interim periods, the provision for income taxes (including federal, state, local and foreign taxes) is calculated based on the estimated annual effective tax rate and for the three and nine months ended September 30, 2017 (Successor) consists of the following:

<i>(in thousands)</i>	Three months ended September 30, 2017	Nine months ended September 30, 2017
Current tax provision (benefit)		
U.S. Federal	\$ -	\$ -
State and local	(3)	(3)
Total current tax provision (benefit)	<u>(3)</u>	<u>(3)</u>
Deferred tax provision (benefit)		
U.S. Federal	222	(332)
State and local	109	(17)
Total deferred tax provision (benefit)	<u>331</u>	<u>(349)</u>
Income tax expense (benefit)	<u>\$ 328</u>	<u>\$ (352)</u>

No valuation allowance was required as of September 30, 2017 or December 31, 2016.

The Company performed an analysis of its tax positions and determined that no material uncertain tax positions exist. Accordingly, there is no liability for uncertain tax positions as of September 30, 2017 or December 31, 2016. Based on the provisions of ASC 740-10, the Company had no material unrecognized tax benefits as of September 30, 2017.

A reconciliation of the federal statutory income tax rate to the Company's effective tax rate is as follows:

	Nine months ended September 30, 2017
Federal statutory income tax rate	34.0%
State income taxes, net of federal tax effect	4.6%
Nondeductible/nontaxable items	1.7%
Tax credits	(2.3)%
Effective tax rate	<u>38.0%</u>

Note 14 – Operating Segments

The Company determined its operating segments on the same basis that it assesses performance and makes operating decisions. The Company manages and measures the performance of its business in two distinct operating segments: Construction and Service. These segments are reflective of how the Company's Chief Operating Decision Maker ("CODM") reviews operating results for the purposes of allocating resources and assessing performance. The Company's CODM is comprised of its Chief Executive Officer, Chief Financial Officer and Chief Operating Officer.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The CODM evaluates performance based on income from operations of the respective segments after the allocation of Corporate office operating expenses. Transactions between segments are eliminated in consolidation. Our Corporate department provides general and administrative support services to our two operating segments. The CODM allocates costs between segments for selling, general and administrative expenses and depreciation expense.

All of the Company's identifiable assets are located in the United States, which is where the Company is domiciled. The Company does not have sales outside the United States. The Company does not identify capital expenditures and total assets, including goodwill, by segment in its internal financial reports due in part to the shared use of a centralized fleet of vehicles and specialized equipment. Interest expense is not allocated to segments because of the corporate management of debt service including interest.

Condensed segment information for the periods presented is as follows:

	<u>Successor</u> <u>July 1, 2017</u> <u>through</u> <u>September 30, 2017</u>	<u>Successor</u> <u>July 20, 2016</u> <u>through</u> <u>September 30, 2016</u>	<u>Predecessor</u> <u>July 1, 2016</u> <u>through</u> <u>July 19, 2016</u>
<i>(in thousands)</i>			
Statement of Operations Data:			
Revenue:			
Construction	\$ 95,779	\$ 73,917	\$ 24,150
Service	25,520	17,972	2,774
Total revenue	<u>121,299</u>	<u>91,889</u>	<u>26,924</u>
Operating income (loss):			
Construction	3,674	3,650	1,490
Service	1,797	1,591	(48)
Corporate	(4,477)	(4,831)	(2,187)
Operating income (loss)	<u>\$ 994</u>	<u>\$ 410</u>	<u>\$ (745)</u>
Operating income (loss) for reportable segments	\$ 994	\$ 410	\$ (745)
Less unallocated amounts:			
Other expenses (Corporate)	538	874	174
Income (loss) before provision for income taxes	<u>\$ 456</u>	<u>\$ (464)</u>	<u>\$ (919)</u>
Other Data:			
Depreciation and amortization:			
Construction	\$ 715	\$ 767	\$ 93
Service	317	378	26
Corporate	993	1,644	30
Total other data	<u>\$ 2,025</u>	<u>\$ 2,789</u>	<u>\$ 149</u>

	<u>Successor</u> <u>January 1, 2017</u> <u>through</u> <u>September 30, 2017</u>	<u>Successor</u> <u>July 20, 2016</u> <u>through</u> <u>September 30, 2016</u>	<u>Predecessor</u> <u>January 1, 2016</u> <u>through</u> <u>July 19, 2016</u>
<i>(in thousands)</i>			
Statement of Operations Data:			
Revenue:			
Construction	\$ 283,465	\$ 73,917	\$ 183,100
Service	70,862	17,972	38,291
Total revenue	<u>354,327</u>	<u>91,889</u>	<u>221,391</u>
Operating income:			
Construction	11,149	3,650	8,620
Service	4,173	1,591	1,878
Corporate	(14,399)	(4,831)	(6,033)
Operating income	<u>\$ 923</u>	<u>\$ 410</u>	<u>\$ 4,465</u>
Operating income for reportable segments	\$ 923	\$ 410	\$ 4,465
Less unallocated amounts:			
Other expenses (Corporate)	1,692	874	1,897
Income (loss) before provision for income taxes	<u>\$ (769)</u>	<u>\$ (464)</u>	<u>\$ 2,568</u>
Other Data:			
Depreciation and amortization:			
Construction	\$ 2,694	\$ 767	\$ 953
Service	1,309	378	333
Corporate	3,380	1,644	296
Total other data	<u>\$ 7,383</u>	<u>\$ 2,789</u>	<u>\$ 1,582</u>

Note 15 – Commitments and Contingencies

Leases. Operating leases consist primarily of leases for real property and equipment. The leases frequently include renewal options, escalation clauses, and require the Company to pay certain occupancy expenses. Lease expense was approximately \$1.1 million and \$3.2 million for the three and nine months ended September 30, 2017, respectively.

Capital leases consist primarily of leases for vehicles (see Note 8 – Debt). The leases require monthly payments of principal and interest. All leases transfer title at lease end for a nominal cash buyout.

Legal. The Company is continually engaged in administrative proceedings, arbitrations, and litigation with owners, general contractors, suppliers, and other unrelated parties, all arising in the ordinary courses of business. In the opinion of the Company's management, the results of these actions will not have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

Energy Contracts. The Company enters into contracts with certain state agencies in Ohio to acquire, construct, implement, and install energy conservation measures, as described in the contracts. The contracts include guarantees related to yearly energy costs savings by these customers, typically over a ten-year period. To the extent the yearly savings guarantees are unmet, the Company would be required to pay the customer the difference between the amount of energy costs savings guarantee and actual savings realized. The total of those guarantee amounts for each of the years ending December 31, 2017 and 2018 are \$84 thousand and \$42 thousand, respectively.

Under the terms of these energy contracts, the Company provides a guarantee bond to its customers in the amount of the guaranteed savings. The Company also maintains a Service Maintenance Agreement on most of the contracts so it can ensure proper maintenance of the equipment. On contracts without a Service Maintenance Agreement, the Company has no obligation for the guarantee if the equipment is not properly maintained. From the inception of these contracts in 1997 through September 30, 2017, the Company has not been required to make any material payments for unmet energy savings under any of the contracts.

As a result of the guarantee bonds and its experience with these arrangements, the Company does not expect to incur any material liabilities with respect to the contracts. Accordingly, no liability has been recorded for the contract guarantees.

Surety. The terms of our construction contracts frequently require that we obtain from surety companies, and provide to our customers, payment and performance bonds (“Surety Bonds”) as a condition to the award of such contracts. The Surety Bonds secure our payment and performance obligations under such contracts, and we have agreed to indemnify the surety companies for amounts, if any, paid by them in respect of Surety Bonds issued on our behalf. In addition, at the request of labor unions representing certain of our employees, Surety Bonds are sometimes provided to secure obligations for wages and benefits payable to or for such employees. Public sector contracts require Surety Bonds more frequently than private sector contracts, and accordingly, our bonding requirements typically increase as the amount of public sector work increases. As of September 30, 2017, the Company had approximately \$98.8 million in surety bonds outstanding. The Surety Bonds are issued by surety companies in return for premiums, which vary depending on the size and type of bond.

Collective Bargaining Agreements. Many of the Company's craft labor employees are covered by collective bargaining agreements. The agreements require the Company to pay specified wages, provide certain benefits and contribute certain amounts to multi-employer pension plans. If the Company withdraws from any of the multi-employer pension plans or if the plans were to otherwise become underfunded, the Company could incur additional liabilities related to these plans. Although the Company has been informed that some of the multi-employer pension plans to which it contributes have been classified as "critical" status, the Company is not currently aware of any significant liabilities related to this issue.

Note 16 - Self-Insurance

The Company purchases workers' compensation and general liability insurance under policies with per-incident deductibles of \$250 thousand and a \$3.2 million maximum aggregate deductible loss limit per year.

The components of the self-insurance liability as of September 30, 2017 and December 31, 2016 are as follows:

<i>(in thousands)</i>	Successor	
	September 30, 2017	December 31, 2016
Current liability — workers' compensation and general liability	\$ 430	\$ 479
Current liability — medical and dental	408	493
Non-current liability	357	601
Total liability shown in Accrued expenses and other liabilities	<u>\$ 1,195</u>	<u>\$ 1,573</u>
Restricted cash	<u>\$ 113</u>	<u>\$ 113</u>

The restricted cash balance represents an imprest cash balance set aside for the funding of workers' compensation and general liability insurance claims. This amount is replenished either when depleted or at the beginning of each month.

Note 17 – Backlog

At September 30, 2017 and December 31, 2016, the Company's contractual Construction backlog, which represents the amount of revenue the Company expects to realize from work to be performed on uncompleted construction contracts in progress, was \$454.3 million and \$390.2 million, respectively. In addition, Service backlog as of September 30, 2017 and December 31, 2016 was \$37.9 million and \$44.1 million, respectively.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from our management’s expectations. Factors that could cause such differences are discussed in “Forward-Looking Statements” and “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on April 17, 2017. We assume no obligation to update any of these forward-looking statements.

On July 20, 2016, we completed the Business Combination in which we acquired Limbach Holdings LLC. Following the Business Combination, we changed our name to Limbach Holdings, Inc. The Condensed Consolidated Financial Statements and certain note presentations separate the Company’s presentations into two distinct periods, the period up to and including the Business Combination closing date (labeled “Predecessor”) and the period after that date (labeled “Successor”), to indicate the application of different bases of accounting between the periods presented. The accompanying Condensed Consolidated Financial Statements include a black line division which indicates that the Predecessor and Successor reporting entities shown are not comparable. The periods presented from January 1, 2017 through September 30, 2017, July 20, 2016 through September 30, 2016 and at December 31, 2016 are the “Successor” periods. The periods presented from January 1, 2016 through July 19, 2016 and July 1, 2016 through July 19, 2016 are the “Predecessor” periods.

The historical financial information of 1347 Capital prior to the Business Combination (a special purpose acquisition company, or SPAC) has not been reflected in the Predecessor financial statements as these historical amounts have been considered de minimis.

The application of acquisition accounting, pursuant to U.S. Generally Accepted Accounting Principles (“GAAP”), for the Business Combination significantly affected certain assets, liabilities, and expenses. As a result, financial information as of September 30, 2017, for January 1, 2017 through September 30, 2017 (Successor), July 1, 2017 through September 30, 2017 (Successor) and July 20, 2016 through September 30, 2016 (Successor) may not be comparable to Limbach’s Predecessor financial information for January 1, 2016 through July 19, 2016 (Predecessor) and July 1, 2016 through July 19, 2016 (Predecessor). Refer to Notes 1 and 4 in the Notes to Condensed Consolidated Financial Statements for additional information on the accounting for the Business Combination.

Calendar Year

We operate on a calendar year ending on December 31 for financial reporting purposes. For calendar year 2017, the Company’s Condensed Consolidated Financial Statements reflect January 1, 2017 through September 30, 2017 (Successor) and for calendar year 2016, the Company’s Condensed Consolidated Financial Statements reflect January 1, 2016 through July 19, 2016 (Predecessor) and July 20, 2016 through September 30, 2016 (Successor).

Overview

We are an industry-leading commercial specialty contractor in the areas of HVAC, plumbing, electrical and building controls through design and construction of new and renovated buildings, maintenance services, energy retrofits and equipment upgrades for private customers and federal, state, and local public agencies in Florida, California, Massachusetts, New Jersey, Pennsylvania, Maryland, Washington DC, Virginia, West Virginia, Ohio and Michigan. We operate our business in two segments, (i) Construction, in which we generally manage large construction or renovation projects that involve primarily HVAC, plumbing, sheet metal fabrication and installation, specialty piping and electrical services, and (ii) Service, in which we provide facility maintenance or general construction services primarily related to HVAC, plumbing or electrical services. Our branches and corporate headquarters are located in the United States.

JOBS Act

We are an emerging growth company (“EGC”) pursuant to the JOBS Act. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for qualifying companies. Under the JOBS Act, we will remain an EGC until the earliest of:

- December 31, 2019 (the last day of the fiscal year following the fifth anniversary of our initial public offering of common equity securities);
- the last day of the fiscal year in which we have annual gross revenue of \$1.07 billion or more;
- the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; and
- the date on which we are deemed to be a “large accelerated filer,” which will occur at such time as the Company has an aggregate worldwide market value of common equity securities held by non-affiliates of \$700.0 million or more as of the last business day of our most recently completed second fiscal quarter.

Pursuant to Section 107(b) of the JOBS Act, as an EGC we elected to delay adoption of accounting pronouncements newly issued or revised after April 5, 2012 applicable to public companies until such pronouncements are made applicable to private companies. As a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies.

Key Components of Condensed Consolidated Statements of Operations

Revenue

We generate revenue principally from fixed-price construction contracts under which we deliver HVAC, plumbing, and electrical construction services to our customers. The duration of our contracts generally ranges from six months to two years. Revenue from fixed price and modified fixed price contracts is recognized on the percentage-of-completion method, measured by the relationship of total cost incurred to total estimated contract costs (cost-to-cost method). Revenue from time and materials contracts is recognized as services are performed. We believe that our extensive experience in HVAC, plumbing, and electrical projects, and our internal cost review procedures during the bidding process, enable us to reasonably estimate costs and mitigate the risk of cost overruns on fixed price contracts.

We generally invoice customers on a monthly basis, based on a schedule of values that breaks down the contract amount into discrete billing items. Costs and estimated earnings in excess of billings on uncompleted contracts are recorded as an asset until billable under the contract terms, and billings in excess of costs and estimated earnings on uncompleted contracts are recorded as a liability until the related revenue is recognizable.

Cost of Revenue

Cost of revenue primarily consists of the labor, equipment, material, subcontract, and other job costs in connection with fulfilling the terms of our contracts. Labor costs consist of wages plus taxes, fringe benefits, and insurance. Equipment costs consist of the ownership and operating costs of company-owned assets, in addition to outside-rented equipment. If applicable, job costs include estimated contract losses to be incurred in future periods. Due to the varied nature of our services, and the risks associated therewith, contract costs as a percentage of contract revenue have historically fluctuated and we expect this fluctuation to continue in future periods.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of personnel costs for our administrative, estimating, human resources, safety, information technology, legal, finance and accounting employees and executives. Also included are non-personnel costs, such as travel-related expenses, legal and other professional fees and other corporate expenses. We expect to incur incremental costs associated with supporting the growth of our business and to meet the increased compliance requirements associated with our transition to and operation as a public company. Those costs include increases in our accounting, human resources, information technology and legal personnel, additional consulting, legal and audit fees, insurance costs, board of directors' compensation and the costs of maintaining compliance with Section 404 of the Sarbanes-Oxley Act.

Depreciation and Amortization

Depreciation and amortization expenses are periodic non-cash charges that consist of depreciation of fixed assets, including leasehold improvements and equipment, and amortization of various intangible assets primarily including leasehold interests, customer relationships, Construction and Service backlogs and definite lived assets.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest expense incurred in connection with our debt, along with the gain (loss) on disposition of property and equipment.

Provision for Income Taxes

Following the Business Combination, Limbach has been taxed as a C Corporation. The Limbach (Predecessor) financial information included herein reflect our results as a limited liability company taxed as a partnership for federal income tax purposes. As a partnership, our profits were not taxed at the entity level. Following the Business Combination, our financial results include the effects of federal income taxes which will be paid at the parent level.

For interim periods, the provision for income taxes (including federal, state and local taxes) is calculated based on the estimated annual effective tax rate. The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the use of the asset and liability method. Under this method, deferred tax assets and liabilities and income or expense are recognized for the expected future tax consequences of temporary differences between the financial statement carrying values and their respective tax bases, using enacted tax rates expected to be applicable in the years in which the temporary differences are expected to reverse. Changes in deferred tax assets and liabilities are recorded in the provision for income taxes.

Surety Bonding

In connection with our business, occasionally we are required to provide various types of surety bonds that provide an additional measure of security to our customers for our performance under certain government and private sector contracts. Our ability to obtain surety bonds depends upon our capitalization, working capital, past performance, management expertise and external factors, including the capacity of the overall surety market. Surety companies consider such factors in light of the amount of our backlog that we have currently bonded and their current underwriting standards, which may change from time-to-time. The bonds we provide typically have face amounts ranging up to \$100 million. As of September 30, 2017, the Company had approximately \$98.8 million in surety bonds outstanding. We believe that our \$600 million bonding capacity provides us with a significant competitive advantage relative to many of our competitors which have limited bonding capacity.

Operating Segments

We manage and measure the performance of our business in two operating segments: Construction and Service. These segments are reflective of how the Company's chief operating decision makers ("CODM") review operating results for the purposes of allocating resources and assessing performance. Our chief operating decision makers are our chief executive officer, chief financial officer and chief operating officer. The CODM evaluates performance and allocate resources based on operating income, which is profit or loss from operations before "other" corporate expenses, income tax provision (benefit) and dividends on redeemable convertible preferred stock, if any.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The CODM evaluates performance based on income from operations of the respective branches after the allocation of corporate office operating expenses. Transactions between segments are eliminated in consolidation. Our corporate department provides selling, general and administrative support services to our two operating segments. We allocate costs between segments for selling, general and administrative expenses and depreciation expense. Some selling, general and administrative expenses such as executive and administrative salaries and payroll expenses, corporate marketing, corporate depreciation and amortization, and consulting, accounting and corporate legal fees are not allocated to segments because the allocation method would be arbitrary and would not provide an accurate presentation of operating results of segments; instead these types of expenses are maintained as a corporate expense. See Note 14 – Operating Segments in the Notes to Condensed Consolidated Financial Statements.

We do not identify capital expenditures and total assets, including goodwill, by segment in our internal financial reports due in part to the shared use of a centralized fleet of vehicles and specialized equipment. Interest expense is not allocated to segments because of the corporate management of debt service including interest.

Comparison of Results of Operations for the three months ended September 30, 2017 (Successor), July 20, 2016 through September 30, 2016 (Successor) and July 1, 2016 through July 19, 2016 (Predecessor)

The following table presents operating results for the three months ended September 30, 2017 (Successor), July 20, 2016 through September 30, 2016 (Successor) and July 1, 2016 through July 19, 2016 (Predecessor) in absolute terms and expressed as a percentage of total revenue, as compared below:

	Successor		Successor		Predecessor	
	July 1, 2017 through September 30, 2017		July 20, 2016 through September 30, 2016		July 1, 2016 through July 19, 2016	
<i>(Amounts in thousands except for percentage)</i>	(\$)	(%)	(\$)	(%)	(\$)	(%)
Statement of Operations Data:						
Revenue:						
Construction	\$ 95,779	79.0%	\$ 73,917	80.4%	\$ 24,150	89.7%
Service	25,520	21.0%	17,972	19.6%	2,774	10.3%
Total revenue	121,299	100.0%	91,889	100.0%	26,924	100.0%
Gross profit:						
Construction	10,068	10.5% ⁽¹⁾	8,049	10.9% ⁽¹⁾	2,639	10.9% ⁽¹⁾
Service	5,342	20.9% ⁽²⁾	4,022	22.4% ⁽²⁾	515	18.6% ⁽²⁾
Total gross profit	15,410	12.7%	12,071	13.1%	3,154	11.7%
Selling, general and administrative:						
Construction	6,394	6.7% ⁽¹⁾	4,399	6.0% ⁽¹⁾	1,149	4.8% ⁽¹⁾
Service	3,545	13.9% ⁽²⁾	2,431	13.5% ⁽²⁾	563	20.3% ⁽²⁾
Corporate	3,670	3.0% ⁽³⁾	3,377	3.7% ⁽³⁾	2,187	8.1% ⁽³⁾
Total selling, general and administrative expenses	13,609	11.2%	10,207	11.1%	3,899	14.5%
Amortization of intangibles (Corporate)	807	0.7%	1,454	1.6%	-	0.0%
Operating income (loss):						
Construction	3,674	3.8% ⁽¹⁾	3,650	4.9% ⁽¹⁾	1,490	6.2% ⁽¹⁾
Service	1,797	7.0% ⁽²⁾	1,591	8.9% ⁽²⁾	(48)	-1.7% ⁽²⁾
Corporate	(4,477)	-	(4,831)	-	(2,187)	-
Total operating income (loss)	994	0.8%	410	0.4%	(745)	-2.8%
Other expenses (Corporate)	538	0.4%	874	1.0%	174	0.6%
(Loss) income before provision for income taxes	456	0.4%	(464)	-0.5%	(919)	-3.4%
Income tax (expense) benefit	(328)	-0.3%	2,277	2.5%	-	0.0%
Net income (loss)	\$ 128	\$ 0.1%	\$ 1,813	\$ 2.0%	\$ (919)	-3.4%

(1) As a percentage of Construction revenue.

(2) As a percentage of Service revenue.

(3) As a percentage of Total revenue.

Comparison of select financial data:

<i>(Amounts in thousands except for percentages)</i>	Successor		Predecessor		Increase/ (Decrease)	
	July 1, 2017 through September 30, 2017 (\$)	July 20, 2016 through September 30, 2016 (\$)	July 1, 2016 through July 19, 2016 (\$)		\$	%
Revenue:						
Construction	\$ 95,779	\$ 73,917	\$ 24,150	\$ (2,288)		-2.3%
Service	25,520	17,972	2,774	4,774		23.0%
Total revenue	121,299	91,889	26,924	2,486		2.1%
Gross profit:						
Construction	10,068	8,049	2,639	(620)		-5.8%
Service	5,342	4,022	515	805		17.7%
Total gross profit	15,410	12,071	3,154	185		1.2%
Selling, general and administrative expenses:						
Construction	6,394	4,399	1,149	846		15.2%
Service	3,545	2,431	563	551		18.4%
Corporate	3,670	3,377	2,187	(1,894)		-34.0%
Total selling, general and administrative expenses	13,609	10,207	3,899	(497)		-3.5%
Amortization of intangibles (Corporate)	807	1,454	-	(647)		-44.5%
Operating income (loss):						
Construction	3,674	3,650	1,490	(1,466)		-28.5%
Service	1,797	1,591	(48)	254		16.5%
Corporate	(4,477)	(4,831)	(2,187)	2,541		36.2%
Total operating income (loss)	\$ 994	\$ 410	\$ (745)	\$ 1,329		396.7%

Revenue

Revenue for the three months ended September 30, 2017 (Successor) increased by \$2.5 million compared to the revenue generated July 20, 2016 through September 30, 2016 (Successor) and July 1, 2016 through July 19, 2016 (Predecessor). Construction revenue decreased by \$2.3 million, or 2.3%, and Service revenue increased by \$4.8 million, or 23.0%. The decrease in Construction revenue was primarily driven by projects winding down in the Michigan, Southern California and New England regions, partially offset by revenue increases at the Mid-Atlantic, Eastern Pennsylvania and Florida regions. The most significant construction decrease pertains to a large project that was nearing completion at June 30, 2017, and was substantially complete at September 30, 2017. The \$4.8 million increase in Service revenue resulted primarily from the Company's focus over recent years on developing longer term customer relationships and sales of larger service owner-direct projects and contracts. Growth in Michigan, Mid-Atlantic and Southern California caused the overall service revenue increase. Maintenance contract revenue was \$3.3 million and \$3.0 million for the three months ended September 30, 2017 and September 30, 2016, respectively, an increase of \$0.3 million or 9.9%.

Gross Profit

Our gross profit increased by \$0.2 million for the three months ended September 30, 2017 (Successor) up from \$12.1 million for the period July 20, 2016 through September 30, 2016 (Successor) and \$3.2 million for the period July 1, 2016 through July 19, 2016 (Predecessor). Construction gross profit decreased \$0.6 million, or 5.8%. Service gross profit increased \$0.8 million, or 17.7%. The total gross profit percentage decreased slightly from 12.9% for the Successor and Predecessor three months ended September 30, 2016 to 12.7% for the same period ended in 2017, mainly driven by project mix.

There were two governmental entity projects that caused gross profit to decrease in the third quarter. The larger project incurred a \$2.0 million gross profit write down due to project delays sequencing issues, lack of change order processing and resulting cost overruns. This project is anticipated to be completed in the first quarter of 2018. The second project's gross profit was written down \$0.6 million due to unexpected permitting and project delays and resulting cost overruns. This project will be completed in 2018. We have undertaken extensive internal reviews by personnel not assigned to the projects, employed outside consultants and are considering potential recovery remedies which will likely not be realized until 2018, if at all. Additionally, a renovation project for a historic building experienced a gross profit write down of \$0.5 million in the quarter. Recovery is possible but unknown as of September 30, 2017. This project is expected to be completed in the second quarter of 2018.

The Company also had a gross profit write up of \$0.9 million on a transit related project during the quarter ended September 30, 2017. The write up resulted from effective cost management and favorable project buyouts.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses for the three months ended September 30, 2017 (Successor) decreased by approximately \$0.5 million to \$13.6 million compared to \$10.2 million for the period July 20, 2016 through September 30, 2016 (Successor) and \$3.9 million July 1, 2016 through July 19, 2016 (Predecessor). In the same quarter in 2016, the Predecessor incurred \$1.5 million related to stock option compensation expense in connection with the Business Combination. Additionally, the Successor incurred 2016 direct transaction costs totaling \$0.1 million and other compensation expense of \$0.6 million related to the Business Combination. All of these 2016 expenses were nonrecurring. During the third quarter of 2017, the Company incurred \$0.9 million of stock-based compensation expenses from the issuance of service-based and performance-based restricted stock units as well as incremental public company expenses totaling \$0.5 million. These public company expenses included incremental professional accounting, legal and consulting fees related to the transition from private to public, some of which will be nonrecurring, and becoming Sarbanes Oxley compliant. Selling, general and administrative expenses as a percentage of revenues were 11.2% for the successor periods for the nine months ended September 30, 2017 and 11.1% for the period July 20, 2016 through September 30, 2016 versus 14.5% for the Predecessor period July 1, 2016 through July 19, 2016.

Amortization of Intangibles

Total amortization expense for the amortizable intangible assets was \$0.8 million for the three months ended September 30, 2017 (Successor) and \$1.5 million for July 20, 2016 through September 30, 2016 (Successor). Because the intangible asset, Backlog – Service, was fully amortized at September 30, 2017, future amortization expense will decrease. There were no intangible assets in the Predecessor period, and accordingly no amortization expense.

Other Expenses

Other expenses, primarily interest expense, were \$0.5 million for the three months ended September 30, 2017 (Successor), \$0.9 million for the period July 20, 2016 through September 30, 2016 (Successor) and \$0.2 million for the period July 1, 2016 through July 19, 2016 (Predecessor).

Provision for Income Taxes

The Predecessor was a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities or benefits being passed to the members. As part of purchase accounting, the Company was required to record all of Limbach's acquired assets and liabilities at their acquisition date fair value. The Company established deferred tax assets and liabilities related to various asset classes through the purchase price allocation.

The Company had a \$3 thousand current state and local income tax benefit for the three months ended September 30, 2017 (Successor). Deferred income tax expense totaled \$0.3 million for the same period. See Note 13 - Income Taxes in the Notes to Condensed Consolidated Financial Statements.

Net Income (Loss) Attributable to Common Stockholders

For the three months ended September 30, 2017 (Successor), the Company's net loss attributable to common stockholders included its net income, net of preferred stock dividends totaling \$149 thousand and the premium of \$847 thousand paid on the partial preferred stock redemption. For the period July 20, 2016 through September 30, 2016 (Successor), our net income attributable to common stockholders reflected net income, net of preferred stock dividends totaling \$160 thousand. Net income (loss) attributable to common stockholders is utilized to compute basic and diluted earnings per share.

Comparison of Results of Operations for the nine months ended September 30, 2017 (Successor), July 20, 2016 through September 30, 2016 (Successor) and January 1, 2016 through July 19, 2016 (Predecessor)

The following table presents operating results for the nine months ended September 30, 2017 (Successor), July 20, 2016 through September 30, 2016 (Successor) and January 1, 2016 through July 19, 2016 (Predecessor) in absolute terms and expressed as a percentage of total revenue, as compared below:

	Successor		Successor		Predecessor	
	January 1, 2017 through September 30, 2017		July 20, 2016 through September 30, 2016		January 1, 2016 through July 19, 2016	
<i>(Amounts in thousands except for percentage)</i>	(\$)	(%)	(\$)	(%)	(\$)	(%)
Statement of Operations Data:						
Revenue:						
Construction	\$ 283,465	80.0%	\$ 73,917	80.4%	\$ 183,100	82.7%
Service	70,862	20.0%	17,972	19.6%	38,291	17.3%
Total revenue	354,327	100.0%	91,889	100.0%	221,391	100.0%
Gross profit:						
Construction	29,997	10.6% ⁽¹⁾	8,049	10.9% ⁽¹⁾	20,300	11.1% ⁽¹⁾
Service	14,720	20.8% ⁽²⁾	4,022	22.4% ⁽²⁾	8,180	21.4% ⁽²⁾
Total gross profit	44,717	12.6%	12,071	13.1%	28,480	12.9%
Selling, general and administrative:						
Construction	18,848	6.6% ⁽¹⁾	4,399	6.0% ⁽¹⁾	11,680	6.4% ⁽¹⁾
Service	10,547	14.9% ⁽²⁾	2,431	13.5% ⁽²⁾	6,302	16.5% ⁽²⁾
Corporate	11,568	3.3% ⁽³⁾	3,377	3.7% ⁽³⁾	6,033	2.7% ⁽³⁾
Total selling, general and administrative expenses	40,963	11.6%	10,207	11.1%	24,015	10.8%
Amortization of intangibles (Corporate)	2,831	0.8%	1,454	1.6%	-	0.0%
Operating income (loss)						
Construction	11,149	3.9% ⁽¹⁾	3,650	4.9% ⁽¹⁾	8,620	4.7% ⁽¹⁾
Service	4,173	5.9% ⁽²⁾	1,591	8.9% ⁽²⁾	1,878	4.9% ⁽²⁾
Corporate	(14,399)	-	(4,831)	-	(6,033)	-
Total operating income (loss)	923	0.3%	410	0.4%	4,465	2.0%
Other expenses (Corporate)	1,692	0.5%	874	1.0%	1,897	0.9%
(Loss) income before provision for income taxes	(769)	-0.2%	(464)	-0.5%	2,568	1.2%
Income tax benefit	352	0.1%	2,277	2.5%	-	0.0%
Net (loss) income	\$ (417)	-0.1%	\$ 1,813	2.0%	2,568	1.2%

(1) As a percentage of Construction revenue.

(2) As a percentage of Service revenue.

(3) As a percentage of Total revenue.

Comparison of select financial data:

<i>(Amounts in thousands except for percentages)</i>	Successor	Successor	Predecessor	Increase/ (Decrease)	
	January 1, 2017 through September 30, 2017	July 20, 2016 through September 30, 2016	January 1, 2016 through July 19, 2016		
	(\$)	(\$)	(\$)		
Revenue:					
Construction	\$ 283,465	\$ 73,917	\$ 183,100	\$ 26,448	10.3%
Service	70,862	17,972	38,291	14,599	25.9%
Total revenue	<u>354,327</u>	<u>91,889</u>	<u>221,391</u>	<u>41,047</u>	<u>13.1%</u>
Gross profit:					
Construction	29,997	8,049	20,300	1,648	5.8%
Service	14,720	4,022	8,180	2,518	20.6%
Total gross profit	<u>44,717</u>	<u>12,071</u>	<u>28,480</u>	<u>4,166</u>	<u>10.3%</u>
Selling, general and administrative expenses:					
Construction	18,848	4,399	11,680	2,769	17.2%
Service	10,547	2,431	6,302	1,814	20.8%
Corporate	11,568	3,377	6,033	2,158	22.9%
Total selling, general and administrative expenses	<u>40,963</u>	<u>10,207</u>	<u>24,015</u>	<u>6,741</u>	<u>19.7%</u>
Amortization of intangibles	2,831	1,454	-	1,377	94.7%
Operating income (loss):					
Construction	11,149	3,650	8,620	(1,121)	-9.1%
Service	4,173	1,591	1,878	704	20.3%
Corporate	(14,399)	(4,831)	(6,033)	(3,535)	-32.5%
Operating income (loss)	<u>\$ 923</u>	<u>\$ 410</u>	<u>\$ 4,465</u>	<u>\$ (3,952)</u>	<u>-81.1%</u>

Revenue

Revenue for the nine months ended September 30, 2017 (Successor) increased by \$41.0 million up from \$91.9 million for the period July 20, 2016 through September 30, 2016 (Successor) and \$221.4 million for the period January 1, 2016 through July 19, 2016 (Predecessor). Construction revenue increased by \$26.4 million, or 10.3%, and Service revenue increased by \$14.6 million, or 25.9%. The increase in Construction revenue was primarily driven by project growth in the Mid-Atlantic and Michigan regions, partially offset by an overall reduction in the Southern California region. A single large construction project accounted for \$18.0 million of this growth. The \$14.6 million increase in Service revenue across all regions resulted primarily from the Company's focus over recent years on developing longer term customer relationships and sales of larger service owner-direct projects and contracts. Year-to-date maintenance contract revenue was \$9.4 million and \$8.4 million as of September 30, 2017 and September 30, 2016, respectively, an increase of \$1.0 million or 11.9%.

Gross Profit

Our gross profit increased by \$4.2 million for the nine months ended September 30, 2017 (Successor) up from \$12.1 million for the period July 20, 2016 through September 30, 2016 (Successor) and \$28.5 million for the period January 1, 2016 through July 19, 2016 (Predecessor). Construction gross profit increased \$1.6 million, or 5.8%. Service gross profit increased \$2.5 million, or 20.6%. The total gross profit percentage decreased slightly from 13.0% for the nine months ended September 30, 2016 to 12.6% for the same period ended in 2017, mainly driven by project mix.

There were two governmental entity projects that caused gross profit to decrease for the nine months ended September 30, 2017. The larger project incurred \$2.5 million in gross profit write downs due to project delays sequencing issues, lack of change order processing and resulting cost overruns. This project is anticipated to be completed in the first quarter of 2018. The second project's gross profit was written down \$0.6 million due to unexpected permitting and project delays and resulting cost overruns. This project will be completed in 2018. We have undertaken extensive internal reviews by personnel not assigned to the projects, employed outside consultants and are considering potential recovery remedies which will likely not be realized until 2018, if at all. Additionally, a renovation project for a historic building experienced a gross profit write down of \$0.5 million in the nine months ended September 30, 2017. Recovery is possible but unknown as of September 30, 2017. This project is expected to be completed in the second quarter of 2018.

The Company also had gross profit write ups of \$1.8 million on a transit related project for the nine months ended September 30, 2017. The write ups resulted from effective cost management and favorable project buyouts.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses for the nine months ended September 30, 2017 (Successor) increased by approximately \$6.7 million to \$41.0 million compared to \$10.2 million for July 20, 2016 through September 30, 2016 (Successor) and \$24.0 million January 1, 2016 through July 19, 2016 (Predecessor). For the nine months ended September 30, 2016, the Predecessor incurred \$1.5 million related to stock option compensation expense in connection with the Business Combination. Additionally, the Successor incurred 2016 direct transaction costs totaling \$0.1 million and other compensation expense of \$0.6 million related to the Business Combination. All of these 2016 expenses were nonrecurring. For the nine months ended September 30, 2017, the Company incurred \$0.9 million of stock-based compensation expenses from the issuance of service-based and performance-based restricted stock units as well as incremental public company expenses totaling \$2.5 million. These public company expenses included incremental professional accounting, legal and consulting fees related to the transition from private to public, some of which will be nonrecurring, and becoming Sarbanes Oxley compliant. For the first nine months of 2017, we incurred \$3.0 million in higher salary and benefits costs related to new hires at several branches. We also incurred \$274 thousand pre-engineering costs, \$132 thousand rent in our Florida location and another \$210 thousand in rental charges at our Southern California location. The higher compensation and rental costs were incurred in support of the Company's growth and plans for continued expansion. Selling, general and administrative expenses as a percentage of revenues were 11.6% for the successor periods nine months ended September 30, 2017 and 11.1% for July 20, 2016 through September 30, 2016 versus 10.8% for the predecessor period January 1, 2016 through July 19, 2016.

Amortization of Intangibles

Total amortization expense for the amortizable intangible assets was \$2.8 million for the Successor nine months ended September 30, 2017 and \$1.5 million for the period July 20, 2016 through September 30, 2016 (Successor). Because the intangible asset, Backlog – Service, was fully amortized at September 30, 2017, future amortization expense will decrease. There were no intangible assets in the Predecessor period, and accordingly no amortization expense.

Other Expenses

Other expenses, primarily interest expense, were \$1.7 million for the Successor nine months ended September 30, 2017 and \$0.9 million July 20, 2016 through September 30, 2016 and \$1.9 million for January 1, 2016 through July 19, 2016 (Predecessor). The difference in interest expense year over year is due to the mix of debt outstanding for the nine months ended September 30, 2017 versus 2016. During 2017, there was less weighted average debt outstanding as a result of the subordinated debt being repaid in December 2016.

Provision for Income Taxes

The Predecessor was a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities or benefits being passed to the members. As part of purchase accounting, the Company was required to record all of Limbach's acquired assets and liabilities at their acquisition date fair value. The Company established deferred tax assets and liabilities related to various asset classes through the purchase price allocation.

The Company had a \$3 thousand current state and local income tax benefit for the nine months ended September 30, 2017 (Successor). Deferred income tax benefit totaled \$0.3 million for the same period. See Note 13 - Income Taxes in the Notes to Condensed Consolidated Financial Statements.

Net Income (Loss) Attributable to Common Stockholders

For the nine months ended September 30, 2017 (Successor), the Company's net loss attributable to common stockholders included its net loss, net of preferred stock dividends totaling \$631 thousand and the premium of \$847 thousand paid on the partial preferred stock redemption. For the period July 20, 2016 through September 30, 2016 (Successor), our net income attributable to common stockholders reflected net income, net of preferred stock dividends totaling \$160 thousand. Net income (loss) attributable to common stockholders is utilized to compute basic and diluted earnings per share.

Construction and Service Backlog Information

Our contract backlog consists of the remaining unearned revenue on awarded contracts. Backlog is not a term recognized under GAAP; however, it is a common measurement used in our industry. Once we have successfully negotiated a project and have received written confirmation of the contract being awarded to us, we record the value of the contract as backlog. Consequently, contract backlog is also an important factor we use to monitor our business. The duration of our contracts vary significantly from months to years and our backlog is subject to increases as projects are added. Our backlog does not necessarily represent the amount of work that we are currently negotiating or pursuing at any given time. It is also subject to change as contract backlog can increase or decrease due to contract change orders.

Given the multi-year duration of many of our contracts, revenue from backlog is expected to be earned over a period that will extend beyond one year. Many of our contracts contain provisions that allow the contract to be canceled at any time; however, if this occurs, we can generally recover costs incurred up to the date of cancellation.

Construction backlog at September 30, 2017 (Successor) was \$454.3 million compared to \$390.2 million at December 31, 2016 (Successor). The increase in backlog at September 30, 2017 compared to backlog at December 31, 2016 was due to new construction contract awards related to the construction portion of Design build/Design assist contracts that were in backlog for only the engineering value of the projects as of December 31, 2016 and other new construction awards. In addition, Service backlog as of September 30, 2017 (Successor) was \$37.9 million compared to \$44.1 million at December 31, 2016 (Successor). Of the backlog at September 30, 2017, we expect to recognize approximately \$120.0 million by the end of 2017. During the third quarter of 2017, the Company secured and booked as backlog the preconstruction portion of a contract for a major mission critical data center. The construction portion is anticipated to be booked during the first quarter of 2018.

Upon the closing of the Business Combination, the Company recognized intangible assets for the fair value of both Construction and Service backlogs. See Note 4 – Business Combination in the Notes to Condensed Consolidated Financial Statements.

Seasonality, Cyclicity and Quarterly Trends

Severe weather can impact our operations. In the northern climates where we operate, and to a lesser extent the southern climates as well, severe winters can slow our productivity on construction projects, which shifts revenue and gross profit recognition to a later period. Our maintenance operations may also be impacted by mild or severe weather. Mild weather tends to reduce demand for our maintenance services, whereas severe weather may increase the demand for our maintenance and spot services. Our operations also experience mild cyclicity, as building owners typically work through maintenance and capital projects at an increased level during the third and fourth calendar quarters of each year.

Effect of Inflation

The prices of products such as steel, pipe, copper and equipment from manufacturers are subject to fluctuation. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial. When appropriate, we include cost escalation factors into our bids and proposals. In addition, we are often able to mitigate the impact of future price increases by entering into fixed price purchase orders for materials and equipment and subcontracts on our projects.

Liquidity and Capital Resources

Summary of Cash Flows

Our liquidity needs relate primarily to the provision of working capital (defined as current assets less current liabilities) to support operations, funding of capital expenditures, and investment in strategic opportunities. Historically, liquidity has been provided by operating activities and borrowing from commercial banks and institutional lenders.

Billings and collections on construction projects slowed during the third quarter of 2017. Management recently devoted additional resources to its collection efforts and expects this operating cash flow trend to reverse and improve as new projects mature, retention is collected on completed projects, and profits increase. Management further expects that additional growth in its service business, which is less sensitive to the cash flow issues presented by large construction projects, will positively impact our cash flow trends.

We believe our current cash and cash equivalents of \$761 thousand as of September 30, 2017, cash to be received from existing and new customers, and availability of borrowing under a revolving line of credit under our Credit Agreement (pursuant to which we had \$8.5 million of availability as of September 30, 2017) will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. The elimination of the subordinated debt as well as the reduction of our term debt and accompanying interest expense reduction has improved cash flow. Additionally, we expect that certain non-cash items, including certain deferred tax assets resulting from accumulated net operating losses generated by the Company prior to the Business Combination, certain permanent book-tax differences originating in the ordinary course of business, and certain additional temporary differences between book and tax basis resulting from the Business Combination, will mitigate our cash outflow until such items are completely utilized, and therefore add to liquidity in the near term.

The following table reflects our available funding capacity as of September 30, 2017:

<i>(in thousands)</i>	
Cash & cash equivalents	\$ 761
Credit agreement:	
Revolving credit facility	\$ 12,785
Outstanding letters of credit	(4,240)
Net credit agreement capacity available	8,545
Total available funding capacity	<u>\$ 9,306</u>

Our cash flows are primarily impacted from period to period by fluctuations in working capital. Factors such as our contract mix, commercial terms, days sales outstanding (“DSO”) and delays in the start of projects may impact our working capital. In line with industry practice, we accumulate costs during a given month then bill those costs in the current month for many of our contracts. While labor costs associated with these contracts are paid weekly and salary costs associated with the contracts are paid bi-weekly, certain subcontractor costs are generally not paid until we receive payment from our customers (contractual “pay-if-paid” terms). We have not historically experienced a large volume of write-offs related to our receivables and our unbilled revenue on contracts in progress. We regularly assess our receivables and costs in excess of billings for collectability and provide allowances for doubtful accounts where appropriate. We believe that our reserves for doubtful accounts are appropriate as of September 30, 2017, but adverse changes in the economic environment may impact certain of our customers’ ability to access capital and compensate us for our services, as well as impact project activity for the foreseeable future.

The following table represents our summarized working capital information:

<i>(in thousands, except ratios)</i>	Successor	
	As of	
	September 30, 2017	December 31, 2016
Current assets	\$ 153,746	\$ 155,183
Current liabilities	(117,230)	(126,729)
Net working capital	<u>\$ 36,516</u>	<u>\$ 28,454</u>
Current ratio*	<u>1.31</u>	<u>1.22</u>

* Current ratio is calculated by dividing current assets by current liabilities.

The following table presents summary cash flow information for the periods indicated:

<i>(in thousands)</i>	Successor	Successor	Predecessor
	January 1, 2017 through September 30, 2017	July 20, 2016 through September 30, 2016	January 1, 2016 through July 19, 2016
Net cash provided by (used in):			
Operating activities	\$ (5,341)	\$ (15,383)	\$ 1,639
Investing activities	(2,282)	(13,013)	(2,107)
Financing activities	978	28,682	(5,401)
Net increase (decrease) in cash and cash equivalents	<u>\$ (6,645)</u>	<u>\$ 286</u>	<u>\$ (5,869)</u>
Property and equipment financed with capital leases	\$ 1,344	\$ 467	\$ 1,014
Financed insurance premium	2,135	-	-
Interest paid	1,427	799	192

Cash Flows Provided by (Used in) Operating Activities

Cash flows used in operating activities were \$5.3 million for the successor periods for the nine months ended September 30, 2017 and \$15.4 million for July 20, 2016 through September 30, 2016 and \$1.6 million cash provided by operating activities for the predecessor period January 1, 2016 through July 19, 2016. For the nine months ended September 30, 2017, we experienced a favorable decrease in costs and estimated earnings in excess of billings on uncompleted contracts (i.e., underbillings) of \$2.3 million, offset by the unfavorable impacts of a decrease in billings in excess of costs and estimated earnings on uncompleted contracts (i.e., overbillings) of \$6.1 million, an increase in receivables of \$5.7 million, and a \$3.2 million decrease in accrued expenses and other current liabilities. Based on the decreases in overbillings of \$6.1 million and in underbillings of \$2.3 million, we experienced a decrease of \$3.8 million in our net overbilled position at September 30, 2017. This decrease is wholly attributable to our less overbilled position of \$4.8 million on a large construction project that was nearing completion at the end of the third quarter. The increase in receivables is attributable to slower overall collections. The decrease in accrued expenses results almost entirely from a \$2.8 million decrease in our incentive compensation accrual at September 30, 2017, due to year-end 2016 incentive bonuses paid in the first quarter of 2017.

For July 20, 2016 through September 30, 2016 (Successor) and January 1, 2016 through July 19, 2016 (Predecessor), we used net cash of \$13.7 million in operating activities. We experienced an increase in receivables of \$37.1 million and an increase in costs and estimated earnings in excess of billings on uncompleted contracts of \$7.9 million and an increase in billings in excess of costs and estimated earnings on uncompleted contracts of \$17.1 million. The increase in receivables was due to several large payments in our Michigan, Mid Atlantic, and Southern California branches that were expected on or before September 30 not being collected until the first week of October. The increase in costs and estimated earnings in excess of billings on uncompleted contracts was due to our contractual terms related to billings on several large guaranteed maximum price contracts in New England, Mid Atlantic and Southern California and slow owner and general contractor approval on authorized change orders in the Mid Atlantic and Southern California regions.

Non-cash charges for depreciation and amortization increased to \$7.4 million for the nine months ended September 30, 2017 up from \$2.8 million for July 20, 2016 through September 30, 2016 (Successor) and \$1.6 million January 1, 2016 through July 19, 2016 (Predecessor), due primarily to the amortization of intangible assets acquired as part of the acquisition of LHLLC beginning in the third quarter of 2016.

Cash Flows Used in Investing Activities

Cash flows used in investing activities for the nine months ended September 30, 2017 (Successor) were \$2.3 million, \$13.0 million for July 20, 2016 through September 30, 2016 (Successor), and \$2.1 million for January 1, 2016 through July 19, 2016 (Predecessor). The majority of our cash used for investing activities in 2017 and for the period January 1, 2016 through July 19, 2016 (Predecessor) was for capital additions pertaining to additional vehicles, tools and equipment, computer software and hardware purchases, office furniture and office related leasehold improvements. We also obtained the use of various assets through operating and capital leases, which reduced the level of capital expenditures that would have otherwise been necessary to operate our business.

Cash flows used in investing activities for July 20, 2016 through September 30, 2016 (Successor) were \$13.0 million, primarily as a result of \$32.2 million cash used in the acquisition of Limbach Holdings LLC offset by \$19.5 million in proceeds from the 1347 Capital trust account.

Cash Flows Provided by (Used in) Financing Activities

Cash flows provided by financing activities were \$1.0 million for the nine months ended September 30, 2017 (Successor) and \$28.7 million for July 20, 2016 through September 30, 2016 (Successor). For the nine months ended September 30, 2017 (Successor) we borrowed \$74.8 million and repaid a total of \$62.5 million on the Credit Agreement revolving facility, paid \$4.1 million to redeem 120,000 preferred shares, made repayments of \$4.1 million on the term loan, made capital lease payments of \$1.3 million and made financed insurance premium payments of \$1.7 million.

On July 20, 2016, in coordination with the Business Combination, the Company entered into a \$25.0 million revolving credit facility (proceeds were \$16.6 million), a \$24.0 million term loan and a \$13.0 million subordinated debt facility. The Company also paid down its previous subordinated debt facility of \$23.6 million, its revolving credit facility of \$8.3 million and made term loan payments of \$1.3 million. The Company also received proceeds of \$9.9 million from the issuance of redeemable preferred convertible preferred stock.

For January 1, 2016 through July 19, 2016 (Predecessor), we used cash of \$5.4 million, in financing activities, primarily due to net reduction of long-term debt in the form of revolver credit of \$3.5 million, term loan payments of \$1.0 million and capital lease payments of \$0.7 million.

Our future capital requirements will depend on many factors, including revenue growth and costs incurred to support it, and increased selling, general and administrative expenses to support the anticipated growth in our operations and regulatory requirements as a new public company. Our capital expenditures in future periods are expected to grow in line with our business. To the extent that existing cash and cash from operations are not sufficient to fund our future operations, we may need to raise additional funds through public or private equity or additional debt financing. Although we currently are not a party to any agreement with any third parties with respect to potential investments in, or acquisitions of, businesses, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Debt and Other Obligations

In January 2016, we amended our prior credit facility, resulting in a \$35.0 million line of credit with a commercial bank, which contained variable interest at one-month LIBOR plus 2.75%, and was due to expire May 2018. This line of credit was refinanced in connection with the Business Combination as disclosed below. The line of credit was subject to certain financial covenants.

On July 20, 2016, in connection with the Business Combination, a subsidiary of the Company, Limbach Facility Services, LLC (“LFS”), refinanced its existing debt by entering into the Credit Agreement and Subordinated Loan Agreement, and incurred lender and third party costs which were all capitalized on our balance sheet. The refinancing qualified as debt extinguishment under GAAP. The Credit Agreement provides for a \$25.0 million line of credit and a \$24.0 million term loan with a consortium of four commercial banks. The loans have a variable interest rate based on one-month LIBOR and expire in July 2021. The loans are subject to certain financial covenants. Also on July 20, 2016, LFS entered into the Subordinated Loan Agreement, which provided for a \$13.0 million subordinated note at 16.0% interest with 13.0% interest paid in cash and the option to pay the additional 3.0% interest in cash or allow it to accrue into the note balance, as payment in kind. The subordinated loan was set to mature in July 2022. On December 21, 2016, the Company repaid all amounts outstanding under the Subordinated Loan Agreement, including deferred interest and prepayment penalties, totaling \$15.3 million to the subordinated debt lender in full settlement of the Subordinated Loan Agreement using the proceeds from the sale of 1,405,500 shares of its common stock at an offering price of \$13.50 per share.

In January 2017, the Company obtained an additional irrevocable letter of credit in the amount of \$850 thousand for its self-insurance program. During the nine months ended September 30, 2017, the Company drew down \$74.7 million and repaid a total of \$62.5 million on its revolving credit facility. The Company also made its required quarterly payments of \$2.3 million per the Credit Agreement for that same period. During June 2017, the Company voluntarily made an additional principal payment of \$1.9 million under the term loan. As of September 30, 2017, there was \$8.5 million of available capacity under the line of credit and \$18.4 million outstanding under the term loan provided by the Credit Agreement. At September 30, 2017, the Company had total irrevocable letters of credit in the amount of \$4.2 million under its self-insurance program as compared to \$3.4 million at December 31, 2016. As of September 30, 2017, the Company was not in compliance with the senior leverage covenant under the Credit Agreement. At September 30, 2017, the maximum senior leverage ratio permissible under the Credit Agreement was 2.50; however, the Company’s actual ratio was 2.55. This was mainly caused by a significant customer payment that was expected before September 30, 2017 but not received until October 17, 2017, and this payment delay caused the Company to draw on its revolving Line of Credit more than forecasted at quarter end. The lender has waived its call right arising from the noncompliance as of September 30, 2017, while reserving its rights with respect to covenant compliance in future quarters. The Company believes that it will be in compliance with this covenant in future quarters. As a result of having obtained a waiver, management estimates no impact of this covenant violation on the Company’s financial condition and liquidity. At December 31, 2016, we were in compliance with all the financial and other covenants related to the Credit Agreement.

On July 14, 2017, the Company entered into a preferred stock repurchase agreement (the “Preferred Stock Repurchase Agreement”) with 1347 Investors LLC (“1347 Investors”) pursuant to which (a) the Company repurchased from 1347 Investors a total of 120,000 shares of the Company’s Class A Preferred Stock, par value \$0.0001 per share (the “Preferred Stock”), for an aggregate sum of approximately \$4,092,153 in cash, (b) for a period of six months after such repurchase, the Company will have the right to repurchase from 1347 Investors, in one or more transactions, all or a portion of the remaining 280,000 shares of Preferred Stock owned by 1347 Investors for a purchase price equal to 130% of the liquidation value per share plus 130% of any and all accrued but unpaid dividends thereon as of the date of closing of the purchase of such shares and (c) 1347 Investors will not, with respect to the 509,500 shares of common stock held in escrow pursuant to its current lock-up arrangement that is to expire on July 20, 2017, sell or otherwise transfer such shares of common stock during the period from such expiration and ending on October 20, 2017.

This repurchase was funded through borrowings under the Company’s revolving credit facility and closed on July 14, 2017. The Company has retired the repurchased shares.

Insurance and Self-Insurance

We purchase workers’ compensation and general liability insurance under policies with per-incident deductibles of \$250,000 per occurrence. Losses incurred over primary policy limits are covered by umbrella and excess policies up to specified limits with multiple excess insurers. We accrue for the unfunded portion of costs for both reported claims and claims incurred but not reported. The liability for unfunded reported claims and future claims is reflected on the Condensed Consolidated Balance Sheets as current and non-current liabilities. The liability is computed by determining a reserve for each reported claim on a case-by-case basis based on the nature of the claim and historical loss experience for similar claims plus an allowance for the cost of incurred but not reported claims. The current portion of the liability is included in accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheet. The non-current portion of the liability is included in other long-term liabilities on the Condensed Consolidated Balance Sheet.

We are self-insured related to medical and dental claims under policies with annual per-claimant and annual aggregate stop-loss limits. We accrue for the unfunded portion of costs for both reported claims and claims incurred but not reported. The liability for unfunded reported claims and future claims is reflected on the Condensed Consolidated Balance Sheets as a current liability in accrued expenses and other current liabilities.

The components of the self-insurance liability are reflected below as of September 30, 2017 and December 31, 2016:

<i>(in thousands)</i>	Successor	
	As of	As of
	September 30, 2017	December 31, 2016
Current liability – workers’ compensation and general liability	\$ 430	\$ 479
Current liability – medical and dental	408	493
Non-current liability	357	601
Total liability	<u>\$ 1,195</u>	<u>\$ 1,573</u>
Restricted cash	<u>\$ 113</u>	<u>\$ 113</u>

The restricted cash balance represents cash set aside for the funding of workers’ compensation and general liability insurance claims. This amount is replenished when depleted, or at the beginning of each month.

Multiemployer Pension Plans

We participate in approximately 50 multiemployer pension plans (“MEPPs”) that provide retirement benefits to certain union employees in accordance with various collective bargaining agreements (“CBAs”). As one of many participating employers in these MEPPs, we are responsible with the other participating employers for any plan underfunding. Our contributions to a particular MEPP are established by the applicable CBAs; however, required contributions may increase based on the funded status of an MEPP and legal requirements of the Pension Protection Act of 2006 (the “PPA”), which requires substantially underfunded MEPPs to implement a funding improvement plan (“FIP”) or a rehabilitation plan (“RP”) to improve their funded status. Factors that could impact funded status of an MEPP include, without limitation, investment performance, changes in the participant demographics, decline in the number of contributing employers, changes in actuarial assumptions and the utilization of extended amortization provisions. Assets contributed to the MEPPs by us may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to an MEPP, the unfunded obligations of the MEPP may be borne by the remaining participating employers.

An FIP or RP requires a particular MEPP to adopt measures to correct its underfunding status. These measures may include, but are not limited to an increase in a company's contribution rate as a signatory to the applicable CBA, or changes to the benefits paid to retirees. In addition, the PPA requires that a 5.0% surcharge be levied on employer contributions for the first year commencing shortly after the date the employer receives notice that the MEPP is in critical status and a 10.0% surcharge on each succeeding year until a CBA is in place with terms and conditions consistent with the RP.

We could also be obligated to make payments to MEPPs if we either cease to have an obligation to contribute to the MEPP or significantly reduce our contributions to the MEPP because we reduce the number of employees who are covered by the relevant MEPP for various reasons, including, but not limited to, layoffs or closure of a subsidiary assuming the MEPP has unfunded vested benefits. The amount of such payments (known as a complete or partial withdrawal liability) would equal our proportionate share of the MEPPs' unfunded vested benefits. We believe that certain of the MEPPs in which we participate may have unfunded vested benefits. Due to uncertainty regarding future factors that could trigger withdrawal liability, we are unable to determine (a) the amount and timing of any future withdrawal liability, if any, and (b) whether our participation in these MEPPs could have a material adverse impact on our financial condition, results of operations or liquidity. In 2015, the Company terminated its relationship with the Teamsters local union in Michigan. As a result of the termination, the Collective Bargaining Agreement required the Company to pay an assessment for future pension liabilities.

Recent Accounting Pronouncements

We review new accounting standards to determine the expected financial impact, if any, that the adoption of such standards will have. See Note 3 - Accounting Standards in the Notes to Condensed Consolidated Financial Statements for further information regarding new accounting standards, including the anticipated dates of adoption and the effects on our consolidated financial position, results of operations or liquidity.

Significant Accounting Policies and Significant Estimates

Our Condensed Consolidated Financial Statements are based on the application of significant accounting policies, which require management to make significant estimates and assumptions. Our significant accounting policies are described in Note 2 – Summary of Significant Accounting Policies of the notes to consolidated financial statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2016. We believe that some of our more critical judgment areas in the application of accounting policies that affect our financial condition and results of operations are the impact of changes in the estimates and judgments pertaining to: (a) revenue recognition from (i) long-term construction contracts for which the percentage-of-completion method of accounting is used and (ii) service contracts; (b) collectability or valuation of accounts receivable; (c) costs and earnings in excess of billings and billings in excess of costs and earnings; (d) property and equipment; (e) fair value measurements; (f) stock based compensation; (g) impairment of both definite and indefinite-lived intangibles; (h) long-lived assets; (i) insurance reserves; (j) tax valuation allowance; and (k) accounting for business combinations.

Revenue and Cost Recognition

We believe our most significant accounting policy is revenue recognition from long-term construction contracts for which we use the percentage-of-completion method of accounting. Percentage-of-completion accounting is the prescribed method of accounting for long-term contracts in accordance with Accounting Standard Codification ("ASC") Topic 605-35, "Revenue Recognition – Construction-Type and Production-Type Contracts", and, accordingly, is the method used for revenue recognition within our industry. Revenue from fixed price and modified fixed price contracts are recognized on the percentage-of-completion method, measured by the relationship of total cost incurred to total estimated contract costs (cost-to-cost method). Revenue from time and materials contracts are recognized as services are performed.

Contract costs include direct labor, material, and subcontractor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, depreciation, and insurance. Selling, general, and administrative costs are charged to expense as incurred. Bidding and proposal costs are also recognized as an expense in the period in which such amounts are incurred. Total estimated contract costs are based upon management's current estimate of total costs at completion. As changes in estimates of contract costs at completion and/or estimated total losses on projects are identified, appropriate earnings adjustments are recorded during the period that the change or loss is identified. Contract revenue for long-term construction contracts is based upon management's estimate of contract prices at completion, including revenue for additional work on which contract pricing has not been finalized. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are recognized in the period in which such losses are determined.

Costs and estimated earnings in excess of billings on uncompleted contracts reflected in the condensed consolidated balance sheets arise when revenue has been recognized but the amounts have not been billed under the terms of the contracts. Also included in Costs and estimated earnings on uncompleted contracts are amounts the Company seeks or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price, or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Such amounts are recorded at estimated net realizable value when realization is probable and can be reasonably estimated. No profit is recognized on the construction costs incurred in connection with claim amounts. Claims and unapproved change orders made by the Company may involve negotiation and, in rare cases, litigation. Unapproved change orders and claims also involve the use of estimates, and it is reasonably possible that revisions to the estimated recoverable amounts of recorded claims and unapproved change orders may be made in the near term. Claims against the Company are recognized when a loss is considered probable and amounts are reasonably determinable. Billings in excess of costs and estimated earnings on uncompleted contracts represent billings in excess of revenue recognized.

In accordance with industry practice, we classify as current all assets and liabilities relating to the performance of long-term contracts. The term of our contracts generally ranges from six months to two years and, accordingly, collection or payment of amounts relating to these contracts may extend beyond one year.

Costs and Earnings in Excess of Billings and Billings in Excess of Costs and Earnings

The asset "Costs and estimated earnings in excess of billings on uncompleted contracts" represents revenue earned and recognized in advance of billings. The liability "Billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in advance of revenue recognized. These amounts will generally be billable or recognizable, as applicable, in the next twelve months. We generally consider collection risk to be low. When events or conditions indicate that the amounts outstanding may become uncollectible, an allowance is estimated and recorded.

Accounts Receivable

Accounts receivable include amounts billed to customers under retention provisions in construction contracts. Such provisions are standard in the Company's industry and usually allow for a small portion of progress billings or the contract price, typically 10%, to be withheld by the customer until after the Company has completed work on the project. Based on the Company's experience with similar contracts in recent years, billings for such retention balances at each balance sheet date are finalized and collected after project completion.

The carrying value of the receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. Management provides for probable uncollectible accounts through a charge to earnings and a credit to the valuation account based on its assessment of the current status of individual accounts, type of service performed, and current economic conditions. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and an adjustment of the account receivable.

Property and Equipment

Property and equipment, including purchases financed through capital leases, are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, which for buildings and leasehold improvements is 5 to 40 years and for machinery and equipment is 1 to 10 years. Expenditures for maintenance and repairs are expensed as incurred. Leasehold improvements for operating leases are amortized over the lesser of the term of the related lease or the estimated useful lives of the improvements.

Fair Value Measurements

Accounting guidance defines fair value as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. Under this guidance, valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, this guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The Company classifies and discloses assets and liabilities carried at fair value in one of the following three categories:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 — inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — significant unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company's consolidated financial instruments are comprised of cash and cash equivalents, restricted cash, trade accounts receivable and accounts payable which approximate fair value primarily due to their short-term maturities and low risk of counterparty default. As of September 30, 2017, the Company determined the fair value of its senior credit facility term loan at \$18.4 million and its revolver loan at \$12.2 million. Such fair value is determined using discounted estimated future cash flows using level 3 inputs.

The Company believes that the carrying amounts of its financial instruments, including cash and cash equivalents, trade accounts receivable, accounts payable and amounts drawn under the revolving portion of the new senior credit facility consist primarily of instruments without extended maturities, which approximate fair value primarily due to their short-term maturities and low risk of counterparty default. We also believe that the carrying value of the term portion of the new senior credit facility approximates its fair value due to the variable rate on such debt.

Stock-Based Compensation

Successor

Upon approval of the Business Combination, the Company adopted the Limbach Holdings, Inc. 2016 Omnibus Incentive Plan (the "2016 Plan"). Certain employees, directors and consultants will be eligible to be granted awards under the 2016 Plan, other than incentive stock options, which may be granted only to employees. Successor has authorized and reserved 800,000 shares of the Company's common stock for issuance under the 2016 Plan. The number of shares issued or reserved pursuant to the 2016 Plan will be adjusted by the plan administrator, as they deem appropriate and equitable, as a result of stock splits, stock dividends, and similar changes in the Company's common stock. In connection with the grant of an award, the plan administrator may provide for the treatment of such award in the event of a change in control.

On August 30, 2017, the Compensation Committee of the Board of Directors of the Company granted an aggregate of 374,433 restricted stock units ("RSUs") under the Limbach Holdings, Inc. Omnibus Incentive Plan to certain executive officers, non-executive employees and non-employee directors of the Company in the forms of an inaugural RSU award to executives (the "Inaugural RSU Award"), an annual long-term incentive RSU award (the "LTI RSU Award"), and an RSU award to non-employee directors ("Director RSU Award"). The recipients of the various executive RSUs include the CEO, COO, CFO and other senior Corporate executives and all Business Unit Managers. The Inaugural RSU Awards contain two different grants--one service-based and one performance-based, while the LTI RSU Awards and the Director RSU Awards each only include service-based grants. As a result, the Company recognized \$924 thousand in stock-based compensation as selling, general and administrative expenses in its Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017. As of September 30, 2017, unrecognized compensation expense totaling \$3.1 million associated with the RSUs is expected to be recognized through December 31, 2019.

Predecessor

The Company measured future compensation expense for all stock options and warrants based on the fair value of the awards at the grant date using the Black-Scholes option pricing model. The Company's Predecessor stock options could only be exercised with a change in control of the Company, consummation of an initial public offering, or dissolution of the Company, as defined by the agreement. In conjunction with the Business Combination on July 20, 2016, the Predecessor options were exercised in a cashless exercise and compensation expense for all outstanding options was recorded in the predecessor period from January 1, 2016 to July 19, 2016.

Intangible Assets and Impairment

We review intangible assets with indefinite lives not subject to amortization for impairment each year, or more frequently when events or significant changes in circumstances indicate that the carrying value may not be recoverable.

We also review intangible assets with definite lives subject to amortization whenever events or circumstances indicate that a carrying amount of an asset may not be recoverable. Intangible assets with definite lives subject to amortization are amortized on a straight-line basis with estimated useful lives ranging from 1 to 9 years. Events or circumstances that might require impairment testing include the identification of other impaired assets within a reporting unit, loss of key personnel, the disposition of a significant portion of a reporting unit, a significant decline in stock price or a significant adverse change in business climate or regulations.

Long-Lived Assets

We evaluate the carrying value of long-lived assets whenever events or changes in circumstances indicate that a potential impairment has occurred. A potential impairment has occurred if the projected future undiscounted cash flows are less than the carrying value of the assets. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of the asset in operations. When a potential impairment has occurred, an impairment charge is recorded if the carrying value of the long-lived asset exceeds its fair value. Fair value is measured based on a projected discounted cash flow model using a discount rate we feel is commensurate with the risk inherent in our business. Our impairment analysis contains estimates due to the inherently judgmental nature of forecasting long-term estimated cash flows and determining the ultimate useful lives of assets. Actual results may differ, which could materially impact our impairment assessment.

Off-Balance Sheet and Other Arrangements

Aside from the \$4.2 million in irrevocable letters of credit outstanding in connection with the Company's self-insurance program at September 30, 2017, we did not have any other relationships with any entities or financial partnerships, such as structured finance or special purpose entities established for the purpose of facilitating off-balance sheet arrangements or other purposes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”). Disclosure controls and procedures means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, as of September 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to two material weaknesses (as defined in SEC Rule 12b-2) in our internal control over financial reporting, as further described below.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Evaluation of Disclosure Controls and Procedures

Based upon this assessment, although progress is being made pursuant to execution of Management’s Remediation Plans as discussed below, management determined that, as of September 30, 2017, we continued to have the following material weaknesses:

- We have not yet fully developed the required accounting and financial reporting control environment to achieve sufficient precision and timeliness of review. We had not established access review controls for employees who post journal entries to ensure that access is required for their job responsibilities. The infrastructure of the accounting department, including the complement of personnel, is not sufficient to account for complex or infrequent transactions, such as business combinations, preferred stock, warrants and convertible debt, to review the work of third-party consultants, material agreements, and journal entries and medical claims incurred but not reported and underlying support with the necessary level of precision in management review controls, or to fully handle SEC reporting requirements. Limitations with our current financial close processes and supporting systems adversely impact our ability to generate financial statements that are free of material misstatement on a timely basis.
- We have not yet established processes and internal controls sufficient to properly accrue for all goods and services received at project sites, but not invoiced to the Company on a timely basis.

Because our financial statements are dependent on the effectiveness of these controls, these deficiencies can result in the increased chance of fraud occurring and not being detected or the increased likelihood of a material error in our financial statements.

Management's Remediation Plans

In light of our material weaknesses in internal control over financial reporting, we retained consulting firms with technical expertise in accounting and SEC reporting matters to support the preparation of our financial statements, assist us in determining the costs to accrue and associated revenues to record, and perform additional analysis to ensure that our financial statements are prepared in accordance with GAAP. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations, changes in stockholders' equity and cash flows for the periods presented.

In addition, we have taken other steps toward the remediation of our material weaknesses. We have hired additional personnel with relevant accounting experience, skills and knowledge. We have reviewed and continue to review our finance and accounting functions to evaluate whether we have a sufficient number of appropriately trained and experienced personnel and plan to add new personnel as we deem necessary. We have also implemented continued learning initiatives and other training programs to ensure that our personnel are appropriately trained and up-to-date on relevant rules and procedures. We have engaged a "big four" accounting firm to assist us in accounting for complex or infrequent transactions. We have segregated access control of those who prepare journal entries from those who review, approve and post journal entries to the general ledger and are in the process of implementing procedures to ensure more detailed reviews of such entries going forward. We have identified, designed, implemented and tested key controls aimed at addressing each of our material weaknesses in an effort to strengthen our internal control environment, including controls surrounding our intercompany transactions and reviews of our material agreements to ensure proper accounting treatment and disclosure. We have also implemented reviews of third party information on which we rely for debt valuations and financial reporting. We continue to review and improve processes and internal controls at our branch locations and train personnel to improve our accrual procedures associated with project costs and selling, general & administrative expenses, including the design and implementation of a new monthly review process. With assistance from consulting firms, we have implemented enhancements to our disclosure controls and procedures. We also continue to develop and refine our comprehensive assessment, documentation and testing of our internal control over financial reporting pursuant to management's assertion requirements under section 404(a) of the Sarbanes Oxley Act.

As we continue to work to improve our internal control over financial reporting and remediate our material weaknesses, management will take additional measures, as deemed appropriate, to improve and strengthen our remediation plans.

Changes in Internal Control over Financial Reporting

Except with respect to certain enhancements discussed immediately above under Management's Remediation Plans, there has been no change in our internal control over financial reporting during the nine months ended September 30, 2017 that has materially affected, or its reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 1. Legal Proceedings

On May 10, 2016, Robert Garfield, on behalf of himself and all other similarly situated public holders of the Company's common stock, filed a Verified Class Action and Derivative Complaint (the "Complaint") against the Company, Gordon G. Pratt, Hassan R. Baqar, Larry G. Swets, Jr., John T. Fitzgerald, Joshua Horowitz, Leo Christopher Saenger III, and Thomas D. Sargent (the "Defendants") in the Circuit Court of Du Page County, Illinois. In his Complaint, Mr. Garfield alleged that (1) the Defendants' efforts to consummate the Business Combination were "ultra vires" acts in violation of the Company's amended and restated certificate of incorporation (the "Charter") because the Charter required Company to liquidate if it had not entered into a letter of intent or definitive agreement to consummate an initial business combination by January 21, 2016, and the letter of intent with Limbach was not entered into until January 29, 2016, (2) the Defendants breached their fiduciary duties to the shareholders in negotiating and approving the merger because, among other things, they had conflicts of interest resulting from their ownership of insider shares, and (3) the Defendants filed a proxy statement that was incomplete and misleading because, among other things, the proxy statement does not disclose certain conflicts of interest and the violation of Company's Charter. The Complaint sought (a) a determination that the action was a proper class action and that Mr. Garfield was a proper class representative; (b) a determination that the action was a proper derivative action; (c) a declaration that the Company's directors breached their fiduciary duties; (d) a declaration that the merger agreement was void because it was ultra vires; (e) injunctive relief enjoining and rescinding the merger; (f) compensatory and/or rescissory damages; and (g) an award of costs and attorney's fees. The Defendants believed that the Complaint was without merit because, among other things, the Company entered into a letter of intent prior to January 21, 2016 with a potential target for a business combination (other than Limbach) which the Company was unable to consummate, thereby extending its deadline for completing a business combination to July 21, 2016, the Defendants did not breach their fiduciary duties, and the proxy statement was not incomplete and misleading. Accordingly, the Company filed a motion to dismiss on November 14, 2016 and, on August 3, 2017, the Circuit Court of Du Page County, Illinois, granted the Company's motion to dismiss, with prejudice. On September 1, 2017, Garfield filed a Notice of Appeal of the trial court's ruling. Briefing has not yet begun and the parties are in active settlement negotiations.

Item 1A. Risk Factors

There have been no material changes to our risk factors previously disclosed in Part I, Item 1A of our 2016 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The Exhibit Index following the signature page hereto is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LIMBACH HOLDINGS, INC.

/s/ Charles A. Bacon, III

Charles A. Bacon, III
Chief Executive Officer
(principal executive officer)

/s/ John T. Jordan, Jr.

John T. Jordan, Jr.
Chief Financial Officer
(principal financial and accounting officer)

Date: November 14, 2017

Exhibits Index

Exhibit	Description
<u>10.1</u>	<u>Preferred Stock Repurchase Agreement, dated July 14, 2017, by and between the Company and 1347 Investors LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36541) filed with the U.S. Securities and Exchange Commission on July 17, 2017).</u>
<u>31.1</u>	<u>Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u>	<u>Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u>	<u>Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u>	<u>Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

**CERTIFICATION PURSUANT TO SECTION 302
CERTIFICATION OF CEO**

I, Charles A. Bacon, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 of Limbach Holdings, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles A. Bacon, III
Charles A. Bacon, III
Chief Executive Officer

Date: November 14, 2017

**CERTIFICATION PURSUANT TO SECTION 302
CERTIFICATION OF CFO**

I, John T. Jordan, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 of Limbach Holdings, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John T. Jordan, Jr.
John T. Jordan, Jr.
Chief Financial Officer

Date: November 14, 2017

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Limbach Holdings, Inc. (the "Company") for the quarter ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Charles A. Bacon, III, the Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2017

By /s/ Charles A. Bacon, III

Charles A. Bacon, III, Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Limbach Holdings, Inc. (the "Company") for the quarter ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned John T. Jordan, Jr., the Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or 78o(d)); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2017

By /s/ John T. Jordan, Jr.

John T. Jordan, Jr., Chief Financial Officer

(Principal Financial Officer)
