

Titan Machinery Inc.
Form S-1
April 28, 2008

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As filed with the Securities and Exchange Commission on April 28, 2008

Registration No. 333-

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TITAN MACHINERY INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5080
(Primary Standard Industrial
Classification Code Number)

45-0357838
(I.R.S. Employer
Identification No.)

**4876 Rocking Horse Circle
Fargo, ND 58104-6049
(701) 356-0130**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**David J. Meyer
Chairman and Chief Executive Officer
Titan Machinery Inc.
4876 Rocking Horse Circle
Fargo, ND 58104-6049
(701) 356-0130**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price per Share(2)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common stock, par value \$0.00001	4,025,000 shares	\$22.81	\$91,810,250	\$3,616

(1) Includes 525,000 shares of Common Stock issuable upon exercise of the underwriters' over-allotment option.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended, based on the average of the high and low trading prices for the common stock as reported by the Nasdaq Global Market on April 23, 2008.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until our registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED APRIL 28, 2008

3,500,000 Shares

Common Stock

Titan Machinery Inc. is offering 3,000,000 shares and selling stockholders are offering 500,000 shares. Our common stock is traded on the Nasdaq Global Market under the symbol "TITN." On April 23, 2008, the last reported sale price of our common stock was \$22.79 per share.

	<u>Per Share</u>	<u>Total</u>
Price to public	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to Titan Machinery Inc.	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$

The underwriters have a 30-day option to purchase up to 525,000 additional shares of common stock from us at the public offering price less the underwriting discount to cover over-allotments, if any. Delivery of the shares of common stock will be made on or about 2008.

This investment involves risk. See "Risk Factors" beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

**Craig-Hallum Capital
Group**

Robert W. Baird & Co.

The date of this prospectus is _____, 2008.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the notes thereto accompanying this prospectus, before making an investment in our common stock.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover of this prospectus, but the information may have changed since that date.

Our Company

We own and operate what we believe is one of the largest networks of full-service agricultural and construction equipment stores in North America. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this prospectus as CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining applications. We offer our customers a one-stop solution for their equipment needs through:

new and used equipment sales;

parts sales;

repair and maintenance services; and

equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We sell parts and provide in-store and on-site repair and maintenance services. We rent equipment and provide other ancillary services such as equipment transportation, GPS signal subscriptions and finance and insurance products.

Throughout our 28-year operating history, we have built an extensive, geographically contiguous network of 39 full-service stores and two outlet stores located in the upper Midwest. We have a successful history of growth through acquisitions, including 17 acquisitions consisting of 34 stores operating in four states since January 1, 2003, which includes three acquisitions consisting of four stores completed since our initial public offering on December 11, 2007. We have a well-established track record of successfully integrating acquired stores, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our growth.

For the fiscal year ended January 31, 2008, our revenue increased 48% to \$433.0 million from \$292.6 million for the fiscal year ended January 31, 2007. For the fiscal year ended January 31, 2008, our net income increased 43% to \$5.2 million from \$3.6 million for the fiscal year ended January 31, 2007. The improvement in our profitability resulted primarily from acquisitions, growth in same-store sales and a manufacturer leasing program.

Our Industry

Our business is driven by the demand for agricultural equipment, which is purchased primarily for the production of food, fiber, feed grain and renewable energy. Based on USDA data, farmers are currently enjoying historically strong economic fundamentals, which is driven in part by growing global demand for agricultural commodities, due in part to renewable energy and economic growth in developing countries. IBISWorld data shows that total revenue for U.S. farm and garden equipment dealers was \$51.8 billion in 2006 and is projected to grow to \$53.5 billion by 2012, as adjusted for inflation.

In addition, our business is impacted by the demand for construction equipment, which is purchased primarily for private and government commercial, residential and infrastructure construction, including the energy and mining markets. CNH and industry reports show that demand for construction equipment in our markets is driven by several factors, including public infrastructure spending, including roads and highways, sewer and water. The Federal Highway Administration allocations to public infrastructure spending in the states in which we operate stores will increase from \$1.3 billion, or 3.9% of federal funding, in 2005 to \$1.6 billion, or 4.3% of federal funding, in 2009, as adjusted for inflation. IBISWorld data shows that total revenue for U.S. construction equipment dealers was \$72.4 billion in 2006 and is projected to grow to \$78.3 billion by 2012, as adjusted for inflation.

Our Business Strengths

We believe our business has the following key strengths:

Titan Operating Model. Through the Titan Operating Model, we empower leadership and share best practices at the store level while realizing efficiencies at the corporate level. We believe exceptional customer service is most efficiently delivered through accountable store employees who are supported by centralized administrative, finance and marketing functions.

Leading North American Equipment Provider with Significant Scale. We believe our size and large, contiguous geographic market provide us with several competitive advantages, including efficient inventory management, a large distribution network, and our ability to capitalize on crop diversification and disparate weather conditions throughout the large geographic area in which we operate stores.

Customer Focus at the Local Level. As part of the Titan Operating Model, we centralize general, administrative, finance and marketing functions. This strategy enables our store employees to focus exclusively on their customers and eliminates redundant operating expenses.

Superior Customer Service to Attract and Retain Customers. We believe our ability to respond quickly to our customers' demands is a key to profitable growth. We spend significant time and resources training our employees to effectively service our customers in each of our local markets, which we believe will increase our revenue.

Unique Entrepreneurial Culture to Attract and Retain Superior Employees. Our unique entrepreneurial culture empowers our employees to make decisions and act within the parameters of a proven operating process and system. The balance we maintain between our entrepreneurial spirit and standardized operations enables us to attract and retain superior employees who can work independently yet consistently throughout our company based on defined objectives and frequent feedback.

Diverse and Stable Customer Base to Avoid Market Volatility. We believe our large and diverse customer base of over 28,000 customers in fiscal 2008 limits our exposure to risks associated with customer concentration and fluctuations in local market conditions.

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Experienced Management Team to Implement our Growth Strategy. Our executive team is led by David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Financial Officer, who have approximately 33 and 29 years, respectively, of industry experience. Our store managers and field marketers also have extensive industry knowledge and experience.

Our Growth Strategy

We believe our business strengths will enable us to grow our business as we implement the following growth strategies:

Increase Market Share and Same-Store Sales. We focus on increasing our share of the equipment sold in our markets because our market share impacts current period revenue and compounds our revenue over the life of the equipment sold through recurring parts and service business. We seek to generate same-store sales growth and increase market share through significant marketing and advertising programs, supporting evolving technologies that are difficult for single-store operators to support, maintaining state-of-the-art service facilities and mobile service trucks and maximizing parts and equipment availability for our customers.

Make Selective Acquisitions to Grow Our Business. The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses servicing discrete local markets. We believe a favorable climate for dealership consolidation exists due to several factors, including the competitiveness of our industry, growing dealer capitalization requirements and lack of succession alternatives. We intend to evaluate and pursue acquisitions with the objectives of entering new markets, consolidating distribution within our established network and strengthening our competitive position. We also look to add construction stores in local markets in which we sell agriculture equipment but do not have construction dealership agreements with CNH.

Integrate New Dealers into the Titan Operating Model. We have developed the Titan Operating Model to optimize the performance and profitability of each of our stores. Upon consummation of each acquisition, we integrate acquired stores into our operations by implementing the Titan Operating Model and seeking to enhance each acquired store's performance within its target market.

Recent Developments

Since our initial public offering in December 2007, we have acquired three additional dealers, totaling four stores. Effective December 1, 2007, we acquired Reiten & Young International, Inc., resulting in the addition of one store in Grand Forks, North Dakota. On January 2, 2008, we acquired Avoca Operations, Inc. and Greenfield Operations, Inc. resulting in the addition of one store in Avoca, Iowa and one store in Greenfield, Iowa. On February 1, 2008, we acquired certain assets of Ceres Equipment Inc., resulting in the addition of one store in Roseau, Minnesota. We have also made significant additions to our administrative operations, including the hiring of several regional managers, and significant additions to both our information technology and accounting staff.

Risk Factors

Our business is subject to a number of risks discussed under the heading "Risk Factors" and elsewhere in this prospectus. The principal risks facing our business include, among others, our substantial dependence upon our relationship with CNH, termination and other provisions in our agreements with CNH affiliates, economic conditions in the agriculture and construction industries, the availability of financing for the equipment we sell, our ability to execute our acquisition strategy, and competition in our industry. There are also several risks relating to this offering and the ownership of our common stock. You should carefully consider these factors, as well as all of the other information set forth in this prospectus.

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Corporate Information

We were incorporated as a North Dakota corporation in 1980 and reincorporated in Delaware in December 2007 prior to our initial public offering. Our executive offices are located at 4876 Rocking Horse Circle, Fargo, ND 58104-6049. Our telephone number is (701) 356-0130. We maintain a web site at www.titanmachinery.com. Our web site and the information contained on our web site shall not be deemed to be part of this prospectus.

The Offering

Common stock offered by us	3,000,000 shares
Common stock offered by the selling stockholders	500,000 shares
Common stock to be outstanding after this offering	16,443,810 shares
Over-allotment option	The underwriters have a 30-day option to purchase up to 525,000 additional shares of common stock from us.
Use of proceeds	We intend to use the net proceeds from this offering to fund future acquisitions of dealerships and for working capital and general corporate purposes. We will not receive any proceeds from the sale of shares by the selling stockholders. See "Use of Proceeds" for additional information.
Nasdaq Global Market symbol	TITN

Unless otherwise indicated, the number of shares of our common stock that will be outstanding immediately after this offering is based on 13,443,810 shares of common stock outstanding as of April 10, 2008, and excludes:

shares issuable under our 2005 Equity Incentive Plan, including 493,252 shares of common stock issuable upon the exercise of outstanding stock options (of which 49,085 are exercisable) at a weighted average exercise price of \$7.61 per share and 506,748 shares of common stock reserved for future issuances;

85,932 shares of common stock issuable pursuant to vesting of restricted stock grants; and

133,638 shares of common stock issuable upon the exercise of outstanding warrants (all of which are exercisable) at a weighted average exercise price of \$3.46 per share.

Except as otherwise noted, all information in this prospectus assumes:

no exercise of the underwriters' over-allotment option; and

an assumed offering price of \$ per share (the last reported sale price of our common stock on , 2008).

Summary Financial Data

The following tables set forth, for the periods and dates indicated, our summary financial data. The summary financial data as of and for our fiscal years ended January 31, 2008, 2007 and 2006 have been derived from our audited financial statements included elsewhere in this prospectus. The results included here and elsewhere in this prospectus are not necessarily indicative of future performance.

	Year ended January 31,		
	2008	2007	2006
(in thousands, except per share data)			
Statement of Operations Data:			
Revenue			
Equipment	\$ 338,382	\$ 220,958	\$ 175,549
Parts	58,743	42,619	31,099
Service	27,344	21,965	16,572
Other	8,502	7,056	5,250
	<u>432,971</u>	<u>292,598</u>	<u>228,470</u>
Cost of revenue			
Equipment	\$ 302,320	\$ 200,558	\$ 160,814
Parts	42,568	29,909	22,459
Service	10,118	8,183	6,404
Other	5,913	5,337	4,081
	<u>360,919</u>	<u>243,987</u>	<u>193,758</u>
Gross profit	72,052	48,611	34,712
Operating expenses	<u>53,190</u>	<u>37,399</u>	<u>26,978</u>
Income from operations	18,862	11,212	7,734
Other income (expense)			
Interest and other income	577	349	87
Floorplan interest expense	(3,812)	(3,294)	(2,296)
Other interest expense, including interest on subordinated debentures of \$559 in 2006, \$1,680 in 2007 and \$1,552 in 2008	(2,480)	(2,179)	(1,072)
Debt retirement costs	<u>(3,824)</u>		
Income before income taxes	9,323	6,088	4,453
Provision for income taxes	<u>(4,110)</u>	<u>(2,450)</u>	<u>(1,721)</u>
Net income	\$ 5,213	\$ 3,638	\$ 2,732
Adjustment to income:			
Amortization of syndication fees-preferred stock (net of tax effect)	(51)	(21)	(21)
	<u>(88)</u>	<u>(102)</u>	<u>(102)</u>

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Year ended January 31,

	<hr/>		
Unpaid accumulated preferred dividends	<hr/>	<hr/>	<hr/>
Income available to common stockholders	\$ 5,074	\$ 3,515	\$ 2,609
	<hr/>	<hr/>	<hr/>

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Earnings per share			
Basic	\$	0.90	\$ 0.81 \$ 0.60
Diluted	\$	0.67	\$ 0.57 \$ 0.47
Weighted average shares outstanding			
Basic		5,607	4,345 4,341
Diluted		8,246	6,907 6,317
Non-GAAP Data:			
Adjusted EBIT (unaudited)	\$	15,627	\$ 8,267 \$ 5,525

Adjusted EBIT

The adjusted EBIT measure presented consists of net income before (1) other interest expense, (2) provision for income taxes and (3) debt retirement costs. We are providing adjusted EBIT, a non-GAAP financial measure, along with GAAP measures, as a measure of income from operations because we believe interest and other income and floorplan interest expense are driven by decisions related to operating our business compared to other items of interest expense, which are associated with capitalizing our business. In addition, debt retirement costs are related to the one-time costs associated with repaying outstanding indebtedness with proceeds from our initial public offering. We believe that adjusted EBIT is meaningful information about our business operations that investors should consider along with our GAAP financial information. We use adjusted EBIT, as well as income from operations and net income, for planning purposes, including the preparation of internal operating budgets.

Adjusted EBIT is a non-GAAP measure that has limitations because it does not include all items of income and expense that impact our operations. This non-GAAP financial measure is not prepared in accordance with, and should not be considered an alternative to, measurements required by GAAP, such as operating income, net income, cash flow from continuing operating activities or any other measure of performance or liquidity derived in accordance with GAAP. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP measures.

The following is a reconciliation of our net income to adjusted EBIT:

	Year ended January 31,		
	2008	2007	2006
	(in thousands)		
Net income	\$ 5,213	\$ 3,638	\$ 2,732
Other interest expense	2,480	2,179	1,072
Provision for income taxes	4,110	2,450	1,721
Debt retirement costs	3,824		
Adjusted EBIT	\$ 15,627	\$ 8,267	\$ 5,525

	January 31,		
	2008	2007	2006
	(in thousands)		
Balance Sheet Data:			
Cash	\$ 42,802	\$ 7,572	\$ 8,671
Inventories	145,767	106,254	81,631
Goodwill and intangibles, net	8,608	3,905	1,587
Total assets	239,369	138,872	105,083
Floorplan notes payable	105,848	84,699	61,908
Long-term liabilities	17,059	24,790	18,599
Total liabilities	163,251	123,814	93,834
Redeemable securities		1,680	1,556
Total stockholders' equity	76,117	13,378	9,693

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all the other information contained in this prospectus before you decide to buy our common stock. If any of the following risks related to our business actually occurs, our business, financial condition and operating results would be adversely affected. The market price of our common stock could decline due to any of these risks and uncertainties related to our business, or related to an investment in our common stock, and you may lose part or all of your investment.

Risks Related to Our Business

We are substantially dependent upon our relationship with CNH.

We are an authorized dealer of CNH agricultural and construction equipment and parts. In fiscal 2008, CNH supplied approximately 77.9% of the new equipment we sold and represented a significant portion of our parts revenue. Our acquisition strategy contemplates the acquisition of additional CNH geographic areas of responsibility and store locations in both the agricultural and construction equipment areas. We depend on CNH Capital America LLC, or CNH Capital, for floorplan financing to purchase a substantial portion of our inventory. In addition, CNH Capital provides a significant percentage of the financing used by our customers to purchase CNH equipment from us. CNH also provides incentive programs and discount programs from time to time that enable us to price our products more competitively. In addition, CNH conducts promotional and marketing activities on national, regional and local levels. Due to our substantial dependence on CNH, our success depends, in significant part, on (i) the overall reputation and success of CNH; (ii) the availability and terms of floorplan financing and customer financing from CNH Capital; (iii) the incentive and discount programs provided by CNH and its promotional and marketing efforts for its industrial and agricultural products; (iv) the goodwill associated with CNH trademarks; (v) the introduction of new and innovative products by CNH; (vi) the manufacture and delivery of competitively-priced, high quality equipment and parts by CNH in quantities sufficient to meet our customers' requirements on a timely basis; (vii) the quality, consistency and management of the overall CNH dealership system; and (viii) the ability of CNH to manage its risks and costs, including those associated with being a multinational company. If CNH does not provide, maintain or improve any of the foregoing, or if CNH were sold or reduced or ceased operations, there could be a material adverse effect on our financial condition and results of operations.

CNH may terminate its dealership agreements with us or change the terms of those agreements, which could adversely affect our business.

Under our dealership agreements with CNH through CNH America LLC, CNH's U.S. manufacturing entity, CNH entities have the right to terminate these agreements immediately in certain circumstances, and, in some cases, for any reason 90 days following written notice. Furthermore, CNH entities may change the terms of their agreements with us, among other things, to change our sales and service areas and/or the product, pricing or delivery terms. CNH routinely conducts evaluations of dealership standards, customer satisfaction surveys and market share studies, the results of which can impact the relationships with its dealers. CNH uses the evaluation results to increase or decrease the monetary rewards to dealers, or limit or expand the availability of financing, warranty reimbursements or other marketing incentives. If CNH were to change the terms of any or all of these agreements in a manner that adversely affects us, our business may be harmed, and if CNH were to terminate all or any of its dealer agreements with us, our business would be severely harmed.

Restrictions in our CNH dealership agreements may significantly affect our operations and growth and prevent a change in control of our company.

We operate our stores pursuant to CNH's customary dealership agreements. These agreements impose a number of restrictions and obligations on us with respect to our operations, including our obligations to actively promote the sale of CNH equipment within our designated geographic areas of responsibility, fulfill the warranty obligations of CNH, provide services to our customers, maintain sufficient parts inventory to service the needs of our customers, maintain inventory in proportion to the sales potential in each sales and service geographic area of responsibility, maintain adequate working capital and maintain stores only in authorized locations. Prior consent of CNH is required for the acquisition by another party of 20% or more of our outstanding stock and for our acquisition of other CNH dealerships; otherwise, CNH may terminate our dealership agreements. There can be no assurances that CNH will give its consent. The restrictions and obligations in our CNH dealership agreements limit our flexibility in operating our current stores and acquiring new stores, which could have an adverse effect on our operations and growth. Furthermore, the requirement that CNH consent to the acquisition by any party of 20% or more of our outstanding stock may have the effect of discouraging transactions involving a change in our control, including transactions that stockholders might deem to be in their best interests.

Our agricultural equipment dealer appointments are not exclusive to the geographic areas we serve, which could adversely affect our operations and financial condition.

CNH could appoint other agricultural equipment dealers in close proximity to our existing stores. The sales and service geographic areas of responsibility assigned to our dealerships can be enlarged or reduced by CNH upon 30 days' prior written notice. CNH and other agricultural equipment dealers can also sell in our sales and service geographic areas of responsibility. To the extent CNH appoints other agricultural equipment dealers within our markets, enlarges or reduces the sales and service geographic areas of responsibility relating to our stores, amends the dealership agreements or imposes new or different terms or conditions under the dealer agreements, our operations and financial condition could be adversely affected.

Our operating results may be adversely impacted by an under-supply of new equipment or an over-supply of used equipment.

If our suppliers cannot continue to provide us a reliable supply of new equipment, we may not be able to meet the our customers' demand and our operating results could be negatively impacted. In light of the current growing global demand for agricultural commodities and the equipment needed to produce those commodities, agricultural equipment suppliers may experience difficulty providing all dealerships a reliable supply of new agricultural equipment, which could adversely impact our results of operations. Further, an under-supply of equipment may cause prices for such equipment to increase. To the extent we cannot pass on any increased costs of equipment to our customers, our operating results may suffer. Conversely, an industry over-supply of used and rental equipment may also adversely affect our operations. Short-term lease programs and commercial rental agencies for construction and agricultural equipment have expanded significantly in North America. Nationwide rental conglomerates have become sizeable purchasers of new equipment and can have a significant impact on industry sales and margins. When equipment comes off of lease or is replaced with newer equipment by rental agencies, there may be a significant increase in the availability of late-model used equipment. An over-supply of used equipment could adversely affect demand for, or the market prices of, new and used equipment. In addition, a decline in used equipment prices could have an adverse effect on residual values for leased equipment, which could adversely affect our financial performance.

If our acquisition plans are unsuccessful, we may not achieve our planned revenue growth.

We believe a significant portion of our future growth will depend on our ability to acquire additional dealerships. Our ability to continue to grow through the acquisition of additional CNH geographic areas of responsibility and store locations or other businesses will be dependent upon the availability of suitable acquisition candidates at acceptable costs, our ability to compete effectively for available acquisition candidates and the availability of capital to complete the acquisitions. We may not successfully identify suitable targets, or if we do, we may not be able to close the transactions, or if we close the transactions, they may not be profitable. In addition, CNH's consent is required for the acquisition of any CNH dealership, and the consent of Bremer Bank National Association is required for the acquisition of any dealership. CNH typically evaluates management, performance and capitalization of a prospective acquirer in determining whether to consent to the sale of a CNH dealership. There can be no assurance that CNH or Bremer will consent to any or all acquisitions of dealerships that we may propose.

Our potential inability to successfully integrate newly-acquired dealerships may adversely affect our financial results.

Once an acquisition is completed, we face many other risks commonly encountered with growth through acquisitions. These risks include incurring significantly higher than anticipated capital expenditures and operating expenses; failing to assimilate the operations and personnel of the acquired dealerships; disrupting our ongoing business; dissipating our management resources; failing to maintain uniform standards, controls and policies; and impairing relationships with employees and customers as a result of changes in management. Fully integrating an acquired dealership into our operations and realization of the full benefit of our strategies, operating model and systems may take several years. There can be no assurance that we will be successful in overcoming these risks or any other problems encountered with such acquisitions. To the extent we do not successfully avoid or overcome the risks or problems related to acquisitions, our results of operations and financial condition could be adversely affected. Future acquisitions also will have a significant impact on our financial position and capital needs, and could cause substantial fluctuations in our quarterly and yearly results of operations. Acquisitions could include significant goodwill and intangible assets, which may result in future impairment charges that would reduce our stated earnings.

We have grown significantly through acquisitions in recent years and expect to continue to grow through acquisitions. Management has expended, and expects to continue to expend, significant time and effort in evaluating, completing and integrating acquisitions and opening new stores. There can be no assurance that our systems, procedures and controls will be adequate to support our expanding operations. Any future growth will also impose significant added responsibilities on our executives, including the need to identify, recruit and integrate new senior level managers and executives. There can be no assurance we will be able to identify and retain such additional management. If we are unable to manage growth efficiently and effectively, or are unable to attract and retain additional qualified management, there could be a material adverse effect on our financial condition and results of operations.

Substantial inventory financing is required for the equipment we sell but may not be available, which could adversely affect our growth and results of operations.

The sale of agricultural and construction equipment requires substantial inventories of equipment and parts to be maintained at each store to facilitate sales to customers on a timely basis. We generally purchase our inventories of equipment with the assistance of floorplan financing programs through CNH Capital and other lenders. As we grow, whether internally or through acquisitions, our inventory requirements will increase and, as a result, our financing requirements also will increase. Certain financing has been guaranteed by David Meyer, our Chairman and Chief Executive Officer. To the

extent that these guarantees were to be revoked or otherwise unavailable, we may not be able to maintain or obtain inventory financing. In the event that our available financing sources are not maintained or are insufficient to satisfy our future requirements, we would be required to obtain financing from other sources. There can be no assurance that additional or alternative financing could be obtained on commercially reasonable terms. To the extent additional financing cannot be obtained on commercially reasonable terms, our growth and results of operations could be adversely affected.

We lease most of our dealership sites from related parties, and if we are unable to obtain commercially reasonable terms and conditions from these related parties or unrelated third parties in the future, our growth and financial condition may be adversely affected.

We lease 25 of our 39 dealership sites from entities affiliated with David Meyer, our Chairman and Chief Executive Officer, Tony Christianson, one of our directors, or Peter Christianson, our President and Chief Financial Officer. We expect that we may lease future dealership sites we acquire from parties related to our affiliates. There is no guarantee that related parties will offer us commercially reasonable terms and conditions or that unrelated third parties will provide alternate dealership sites on commercially reasonable terms and conditions. If we cannot obtain commercially reasonable terms and conditions on leases for our current or future dealership sites from entities related to Messrs. Meyer, Tony Christianson or Peter Christianson, or from unrelated third parties, our growth and financial condition may be adversely affected.

Failure to properly manage our equipment inventory, our largest asset, would have a significant adverse effect on our operations.

Our equipment inventory has generally represented 50% or more of our total assets. Thus, our success is significantly dependent upon our ability to manage the supply and cost of new and used equipment. The pricing of equipment can be highly volatile and subject to negotiation, particularly in the used equipment market. Pricing for and sales of used equipment can be significantly affected by the limited market for such equipment. Further, liquidation prices of used agricultural and construction equipment can have significant fluctuations due to economic cycles, utilization trends and degree of specialization. We are dependent upon the ability of our management and buyers to negotiate acceptable purchase prices, to affect a proper balance of new and used equipment and to manage the amount of equipment in inventory to assure quick turnover. Our failure to manage our inventory and equipment costs could materially adversely affect our results of operations and financial condition.

Adverse changes in the agricultural industries could result in decreases in purchases of agricultural equipment and harm our revenue and profitability.

Our business depends to a great extent upon general activity levels in the agricultural industries. Changes in farm income and farmland value, the level of worldwide farm output and demand for farm products, commodity prices, animal diseases and crop pests, and limits on agricultural imports are all material factors that could adversely affect the agricultural industries and result in a decrease in the amount of agricultural equipment that our customers purchase. The nature of the agricultural equipment industries is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for new and used equipment. These downturns may be prolonged and our revenue and profitability would be harmed.

Adverse changes in governmental agricultural policies, including decreases in farm subsidies, may reduce demand for agricultural equipment and cause our revenue to decline.

Changes in governmental agricultural policy could adversely affect sales of agricultural equipment. Government subsidies influence demand for agricultural equipment. Proposals for a new farm bill and the 2008 USDA budget, if adopted, may reduce the amount of payments to individual farmers. We

cannot predict the outcome of these proposals, and to the extent that these proposals reduce payments to individual farmers, these proposals, if adopted, could reduce demand for agricultural equipment and we could experience a decline in revenue.

Adverse changes in the construction industry could result in decreased demand for construction equipment and harm our revenue.

General economic conditions in markets in which we do business can impact the demand for our construction equipment. The construction industry in our geographical areas has experienced recent instances of economic down cycles and interest rate fluctuations that have affected the new residential housing market, which negatively impacts sales of light construction equipment. Decreased demand for our products can have a negative impact on our financial performance and cash flow. Our business and earnings are impacted by the changes in the residential construction industry. The ability of consumers to obtain mortgages for the purchase of newly constructed homes impacts the overall demand for new home construction. The uncertainties created by recent events in the sub-prime mortgage market and their impact on the overall mortgage market, including the tightening of credit standards, could adversely affect the ability of consumers to obtain financing for the purchase of new homes, thus reducing demand for new construction and in turn reducing our customers' demand for our construction equipment. Reduced demand for our construction equipment can negatively affect our financial performance and cash flow.

Climate fluctuations may negatively impact the agricultural and construction equipment markets and harm our sales.

Weather conditions, particularly severe floods and droughts, can have a significant impact on the success of regional agricultural and construction markets and, therefore, the economic conditions of the regions in which we operate stores. Accordingly, our financial condition and results of operations may be materially and adversely affected by any adverse cyclical trends or weather conditions. Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment, parts and service purchases by our customers. A significant increase in the severity of weather cycles could increase the volatility of our results of operations and impact our financial condition. If we acquire businesses in geographic areas other than where we currently have operations, we may be affected more by the above-mentioned or other seasonal and equipment buying trends.

Our results of operations may fluctuate from period to period due to interest rate adjustments.

The ability to finance affordable purchases, of which the interest rate charged is a significant component, is an important part of a customer's decision to purchase agricultural or construction equipment. Interest rate increases may make equipment purchases less affordable for customers and, as a result, our revenue and profitability may decrease as we manage excess inventory and reduce prices for equipment. To the extent we cannot pass on our increased costs of inventory to our customers, our net income may decrease. Partially as a result of the foregoing, our results of operations have in the past and in the future are expected to continue to fluctuate from quarter to quarter and year to year. We are unable to anticipate the timing and impact of interest rate adjustments. Recently, the sub-prime and alternative mortgage markets have been receiving negative attention, resulting in tighter lending standards throughout the mortgage industry and overall credit markets. This volatility in the credit markets may have a negative impact on our business by making it more difficult for certain of our customers to obtain financing to purchase agricultural or construction equipment. Conversely, the recent decreases in interest rates may positively affect a customer's decision to purchase agricultural or construction equipment. We are unable to predict with certainty any positive or negative affect on our business as a result of the recent interest rate decreases.

Aggressive pricing competition could adversely affect our results of operation and growth.

The agricultural and construction equipment sales and distribution industries are highly competitive and fragmented, with large numbers of companies operating on a regional or local scale. Historically, our competitors have competed aggressively on the basis of pricing or inventory availability, resulting in decreased margins on our sales to the extent we choose to match our competitors' downward pricing. To the extent we choose not to match or remain within a reasonable competitive distance from our competitors' pricing, it could also have an adverse impact on our results of operations, as we may lose sales volume. In addition, to the extent CNH's competitors provide their dealers with more innovative or higher quality products, better customer financing, or have more effective marketing efforts, our ability to compete and financial condition and results of operations could be adversely affected.

We are substantially dependent on our Chief Executive Officer and President, the loss and replacement of whom could have a material adverse effect on our business.

We believe our success will depend to a significant extent upon the efforts and abilities of David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Financial Officer. The employment relationships with both Mr. Meyer and Mr. Christianson are terminable by us or each of them at any time for any reason. The loss of the services of one or both of these persons and other key employees could have a material adverse effect on our operating results.

Selling agricultural and construction equipment and parts subjects us to product liability risks that could adversely affect our financial condition and reputation.

Products sold or serviced by us may expose us to potential liabilities for personal injury or property damage claims relating to the use of such products. There can be no assurance that we will not be subject to or incur any liability for such claims in the future. There can be no assurance that our product liability insurance will be adequate to cover product liability claims. There also can be no assurance that such insurance will continue to be available on economically reasonable terms. An uninsured or partially insured claim for which indemnification is not provided could have a material adverse effect on our financial condition. Furthermore, if any significant claims are made against us or against CNH or any of our other suppliers, our business may be adversely affected by any resulting negative publicity.

Risks Relating to this Offering and Ownership of Our Common Stock

Our common stock price may be volatile and you may not be able to resell your shares at or above the price you paid for your shares.

You may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering. The stock markets have been extremely volatile. The risks related to our company discussed above, as well as the public's reaction to our public announcements, changes in research analysts' recommendations and decreases in market valuations of similar companies, could cause the market price of our common stock to decrease significantly from the price you pay in this offering. Further, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

In addition, securities class action litigation often has been initiated when a company's stock price has fallen below the company's public offering price soon after the offering closes or following a period of volatility in the market price of the company's securities. If class action litigation is initiated against us, we would incur substantial costs and our management's attention would be diverted from our operations. All of these factors could cause the market price of our stock to decline, and you may lose some or all of your investment.

Future sales of our common stock by our existing stockholders could cause our stock price to decline.

If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decrease significantly. The perception in the public market that our stockholders might sell shares of our common stock could also depress the market price of our common stock. Stockholders holding an aggregate of 5,672,104 shares prior to this offering are subject to lock-up agreements that restrict their ability to transfer their shares of our common stock. The market price of shares of our common stock may decrease significantly when the restrictions on resale by certain of our existing stockholders lapse. In addition, we have an effective registration statement covering 1,000,000 shares of our common stock issuable under our 2005 Equity Incentive Plan. A decline in the price of shares of our common stock might impede our ability to raise capital through the issuance of additional shares of our common stock or other equity securities, and may cause you to lose part or all of your investment in our shares of common stock.

We have broad discretion in the use of the proceeds of this offering and may apply the proceeds in ways with which you do not agree.

Our net proceeds from this offering will be used, as determined by management in its sole discretion, for working capital and general corporate purposes, including possible acquisitions of dealers of CNH products. We have not, however, determined the allocation of these net proceeds among the various uses described in this prospectus. Our management will have broad discretion over the use and investment of these net proceeds, and, accordingly, you will have to rely upon the judgment of our management with respect to our use of these net proceeds, with only limited information concerning management's specific intentions. You will not have the opportunity, as part of your investment decision, to assess whether we use the net proceeds from this offering appropriately. We may place the net proceeds in investments that do not produce income or that lose value, which may cause our stock price to decline.

Our directors and executive officers will continue to have substantial control over us after this offering and could limit your ability to influence the outcome of key transactions, including changes of control.

We anticipate that our executive officers and directors and entities affiliated with them will, in the aggregate, beneficially own 32.2% of our outstanding common stock following the completion of this offering, assuming the underwriters do not exercise their over-allotment option. Our executive officers, directors and affiliated entities, if acting together, would be able to control or influence significantly all matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other significant corporate transactions. These stockholders may have interests that differ from yours, and they may vote in a way with which you disagree and that may be adverse to your interests. In particular, David Meyer, our Chairman and Chief Executive Officer, will own over 19% of our outstanding capital stock following the completion of this offering. As such, he alone is able to exercise significant influence over matters requiring approval by the stockholders, including the election of directors and approval of significant corporate transactions. The concentration of ownership of our common stock may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and may affect the market price of our common stock. This concentration of ownership of our common stock may also have the effect of influencing the completion of a change in control that may not necessarily be in the best interests of all of our stockholders.

Our charter documents and Delaware law may inhibit a takeover that stockholders consider favorable.

Provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware law may delay or discourage transactions involving an actual or potential change in our control or change

in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. These provisions:

permit our board of directors to issue up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate, including the right to approve an acquisition or other change in our control;

provide that the authorized number of directors may be changed by resolution of the board of directors;

provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;

divide our board of directors into three classes;

provide that directors may only be removed for cause by the holders of at least two-thirds of the voting power of the shares eligible to vote for directors;

require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not be taken by written consent;

provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice; and

do not provide for cumulative voting rights (therefore allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose).

In addition, Section 203 of the Delaware General Corporation Law generally limits our ability to engage in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions may have the effect of entrenching our management team and may deprive you of the opportunity to sell your shares to potential acquirers at a premium over prevailing prices. This potential inability to obtain a control premium could reduce the price of our common stock. See "Description of Capital Stock Anti-Takeover Provisions."

You will experience immediate and substantial dilution in the net tangible book value of the common stock you purchase in this offering.

If you purchase shares of our common stock in this offering, you will experience immediate dilution of \$ _____ per share (based on the assumed offering price of \$ _____ per share, the last reported sale price of our common stock on _____, 2008), because the price that you pay will be substantially greater than the adjusted net tangible book value per share of common stock that you acquire. This dilution is due in large part to the fact that our earlier investors paid substantially less than the price of the shares being sold in this offering when they purchased their shares of our capital stock. A \$1.00 increase or decrease in the assumed public offering price of \$ _____ per share would increase or decrease, as applicable, the dilution per share you experience by \$ _____ per share. In addition, if outstanding options to purchase our common stock are exercised, you will experience additional dilution.

We can issue shares of preferred stock without stockholder approval, which could adversely affect the rights of common stockholders.

Our charter documents permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our stockholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of our company, depriving common stockholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

Being a public company has substantially increased our legal and financial compliance costs, which could harm our business, financial condition and results of operations.

Compliance with publicly-traded company regulations adversely impacts our resources. As a publicly-traded company, we are subject to rules and regulations that increase our legal and financial compliance costs, make some activities more time-consuming and costly, and divert our management's attention away from the operation of our business. These rules and regulations may make it more difficult and more expensive for us to maintain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, we may experience more difficulty attracting and retaining qualified individuals to serve on our board of directors or as executive officers. We cannot predict or estimate the amount of additional costs we may incur as a result of these requirements or the timing of these costs. Furthermore, our current management has limited experience in running a public company. The costs of being public and the diversion of management's time and attention may have a material adverse effect on our business, financial condition and results of operations.

Our internal controls over financial reporting may not be effective and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and adverse effect on our business and reputation.

We will be required to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and rules and regulations of the SEC thereunder for fiscal 2009. If we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404. We cannot be certain as to the timing of completion of our evaluation, testing and any remedial actions or their impact on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting, we may be unable to report our financial results accurately or in a timely manner and we may be subject to sanctions or investigation by regulatory authorities, such as the SEC. As a result, there could be a negative reaction in the financial markets due to a loss of confidence in the reliability of our financial statements. We have implemented actions relating to remediating past control deficiencies and will need to continue to take actions to improve our internal control system, which may include the hiring of additional personnel and incurring other costs. Any such actions could negatively affect our results of operations.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. In some cases, you can identify forward-looking statements by the following words: "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "potential," "predict," "project," "should," "will," "would," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. These statements involve known and unknown risks, uncertainties and other factors that may cause our results or our industry's actual results, levels of activity, performance or achievements to be materially different from the information expressed or implied by these forward-looking statements. Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information.

These important factors include those that we discuss under the heading "Risk Factors." You should read these risk factors and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. We cannot assure you that the forward-looking statements in this prospectus will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. You should read this prospectus completely. Other than as required by law, we undertake no obligation to update these forward-looking statements, even though our situation may change in the future.

THIRD PARTY INFORMATION

All trademarks, trade names and service marks appearing in this prospectus are the property of their respective owners.

We obtained industry and market data used throughout this prospectus through our research, surveys and studies conducted by third parties and industry and general publications. We have not independently verified market and industry data from third-party sources. While we believe internal company surveys are reliable and market definitions are appropriate, neither these surveys nor these definitions have been verified by any independent sources.

USE OF PROCEEDS

We estimate that the net proceeds from our sale of shares of common stock in this offering will be approximately \$ million, or approximately \$ million if the underwriters exercise their over-allotment option in full, based on the last reported sale price of our common stock on , 2008, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. Each \$1.00 increase or decrease in the assumed public offering price of \$ per share would increase or decrease, as applicable, the net proceeds to us by approximately \$ (or approximately \$ if the underwriters exercise their over-allotment option in full), assuming the number of shares offered by us as set forth on the cover of this prospectus remains the same and after deducting estimated underwriting discounts and commissions payable by us.

We intend to use these net proceeds to fund potential acquisitions of CNH agricultural and construction equipment dealerships and for general corporate purposes, including working capital needs. We are not currently in negotiations for any acquisitions for which we intend to use the proceeds of this offering.

Pending the uses described above, we intend to invest the net proceeds of this offering in short- to medium-term, investment-grade, interest-bearing securities. We intend to use any interest earned by these investments for the purposes listed above.

PRICE RANGE OF COMMON STOCK

Our common stock has traded on the Nasdaq Global Market under the symbol "TITN" since it began trading on December 6, 2007. Our initial public offering was priced at \$8.50 per share. The following table sets forth, for the periods indicated, the high and low sales prices for our common stock as reported on the Nasdaq Global Market.

	<u>High</u>	<u>Low</u>
Fiscal 2008		
Fourth Quarter (from December 6, 2007)	\$ 17.40	\$ 9.48
Fiscal 2009		
First Quarter (through April 23, 2008)	\$ 24.50	\$ 14.66

On April 23, 2008, the last reported sale price of our common stock on the Nasdaq Global Market was \$22.79.

On April 10, 2008, we had approximately 38 holders of record of our common stock, excluding holders whose stock is held either in nominee name and/or street name brokerage accounts.

DIVIDEND POLICY

We have not historically paid any dividends on our common stock. We intend to retain our future earnings, if any, to finance the expansion and growth of our business. We do not expect to pay cash dividends on our common stock in the foreseeable future. Payment of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, outstanding indebtedness and plans for expansion and restrictions imposed by lenders, if any. Currently, our credit facilities restrict our ability to pay cash dividends. In December 2007, we paid accrued cash dividends in the aggregate amount of \$441,028 upon the conversion of all of our outstanding preferred stock.

CAPITALIZATION

The following table sets forth our capitalization as of January 31, 2008:

on an actual basis; and

on an as adjusted basis to reflect our sale of shares in this offering at an assumed offering price of \$ per share (the last reported sale price of our common stock on , 2008), after deducting estimated underwriting discounts and commissions and offering expenses payable by us, and the application of the net proceeds from our sale of common stock in this offering. Each \$1.00 increase or decrease in the assumed public offering price of \$ per share (the last reported sale price of our common stock on , 2008) would increase or decrease, respectively, the as adjusted amount of cash, additional paid-in capital and total stockholders' equity in each case by approximately \$, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions payable to us.

You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes appearing elsewhere in this prospectus.

	As of January 31, 2008	
	Actual	As Adjusted
	(dollars in thousands)	
Cash	\$ 42,802	\$
Floorplan notes payable(1)	\$ 105,848	\$ 105,848
Long-term debt:		
Senior term notes (including current maturities)	18,737	18,737
Subordinated debentures	1,300	1,300
Other debt	2,676	2,676
Total long-term debt	22,713	22,713
Stockholders equity:		
Undesignated preferred stock, \$0.00001 par value, 5,000,000 authorized, no shares issued and outstanding, actual and as adjusted		
Common stock \$0.00001 par value, 30,000,000 shares authorized, 13,440,654 shares issued and outstanding, actual, 30,000,000 authorized and shares issued and outstanding, as adjusted		
Additional paid-in capital	58,180	
Retained earnings	17,937	
Total equity	76,117	
Total capitalization	\$ 204,678	\$

(1) Approximately \$36.9 million of floorplan notes were interest-bearing.

SELECTED FINANCIAL DATA

You should read the following selected financial data together with our financial statements and the related notes appearing at the end of this prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which follows immediately after this section. We derived the statement of operations data for the years ended January 31, 2004, 2005, 2006, 2007 and 2008, and the balance sheet data as of those dates, from our audited financial statements, which for the years ended January 31, 2006, 2007 and 2008 are contained elsewhere in this prospectus. Those statements were audited by Eide Bailly LLP, our independent registered public accounting firm. Our results are not necessarily indicative of the results we may achieve in any future period.

	Year Ended January 31,				
	2008	2007	2006	2005	2004
(in thousands, except per share data)					
Statement of Operations Data:					
Revenue					
Equipment	\$ 338,382	\$ 220,958	\$ 175,549	\$ 119,850	\$ 66,091
Parts	58,743	42,619	31,099	25,058	18,897
Service	27,344	21,965	16,572	13,141	9,940
Other	8,502	7,056	5,250	4,134	2,527
	<u>432,971</u>	<u>292,598</u>	<u>228,470</u>	<u>162,183</u>	<u>97,455</u>
Cost of revenue					
Equipment	\$ 302,320	\$ 200,558	\$ 160,814	\$ 109,023	\$ 60,287
Parts	42,568	29,909	22,459	18,402	13,401
Service	10,118	8,183	6,404	5,236	3,717
Other	5,913	5,337	4,081	3,119	1,864
	<u>360,919</u>	<u>243,987</u>	<u>193,758</u>	<u>135,780</u>	<u>79,269</u>
Gross profit	72,052	48,611	34,712	26,403	18,186
Operating expenses	53,190	37,399	26,978	22,596	16,609
Income from operations	18,862	11,212	7,734	3,807	1,577
Other income (expense)					
Interest and other income	577	349	87	144	48
Interest expense	(6,292)	(5,473)	(3,368)	(1,693)	(1,346)
Debt retirement costs	(3,824)				
Income before income taxes	9,323	6,088	4,453	2,258	279
Provision for income taxes	(4,110)	(2,450)	(1,721)	(911)	(115)
Income from continuing operations	5,213	3,638	2,732	1,347	164
Discontinued operations				(75)	

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Year Ended January 31,

Net income	\$	5,213	\$	3,638	\$	2,732	\$	1,272	\$	164
Adjustment to income:										
Amortization of syndication fees preferred stock		(51)		(21)		(21)		(19)		(14)
Unpaid accumulated preferred dividends		(88)		(102)		(102)		(90)		(59)
Income available to common stockholders	\$	5,074	\$	3,515	\$	2,609	\$	1,163	\$	91
Earnings per share										
Basic	\$	0.90	\$	0.81	\$	0.60	\$	0.27	\$	0.02
Diluted	\$	0.67	\$	0.57	\$	0.47	\$	0.24	\$	0.02
Weighted average shares outstanding										
Basic		5,607		4,345		4,341		4,341		4,341
Diluted		8,246		6,907		6,317		6,106		4,348
		20								

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	January 31,				
	2008	2007	2006	2005	2004
	(in thousands)				
Balance Sheet Data:					
Cash	\$ 42,802	\$ 7,572	\$ 8,671	\$ 1,108	\$ 1,937
Receivables	22,061	10,921	5,794	4,969	3,084
Inventories	145,767	106,254	81,631	66,569	34,381
Prepaid expenses	215	186	33	45	50
Income tax receivable	1,074				
Deferred income taxes	1,027	462	423	321	288
Goodwill and intangibles, net	8,608	3,905	1,587	1,227	1,280
Property and equipment	16,023	8,175	5,327	3,559	2,235
Other assets	1,792	1,397	1,617	1,308	1,413
Total assets	\$ 239,369	\$ 138,872	\$ 105,083	\$ 79,106	\$ 44,668
Accounts payable	\$ 9,244	\$ 4,228	\$ 5,488	\$ 3,227	\$ 3,316
Line of credit				2,644	400
Floorplan notes payable(1)	105,848	84,699	61,908	51,617	20,721
Current maturities of long-term debt	5,654	2,824	1,532	1,113	1,139
Customer deposits	19,310	4,608	4,015	2,135	3,641
Accrued expenses	6,137	2,287	1,942	1,023	914
Income taxes payable		378	350	691	61
Total current liabilities	146,193	99,024	75,235	62,450	30,192
Long-term liabilities	15,759	8,043	4,405	4,948	4,442
Subordinated debentures	1,300	16,747	14,194	3,492	3,492
Redeemable securities		1,680	1,556	1,433	927
Total stockholders' equity	76,117	13,378	9,693	6,783	5,615
	\$ 239,369	\$ 138,872	\$ 105,083	\$ 79,106	\$ 44,668

(1)

Approximately 35% of floorplan notes payable were interest bearing at January 31, 2008.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the Selected Financial Data and our financial statements and the accompanying notes. Our actual results could differ materially from those anticipated in the forward-looking statements included in this discussion as a result of certain factors, including, but not limited to, those discussed in "Risk Factors" and "Information Regarding Forward-Looking Statements" included elsewhere in this prospectus.

Overview

We own and operate what we believe is one of the largest networks of full service agricultural and construction equipment stores in North America. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this prospectus as CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining applications. We offer our customers a one-stop solution for their equipment needs through:

new and used equipment sales;

parts sales;

repair and maintenance services; and

equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. According to public reports filed by CNH, CNH is a leading manufacturer and supplier of agricultural and construction equipment based on the number of units sold, primarily through the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. Sales of new CNH products accounted for approximately 77.9% of our new equipment revenue in fiscal 2008, with no other supplier accounting for more than 3%. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We sell parts and provide in-store and on-site repair and maintenance services. We rent equipment and provide other ancillary services such as equipment transportation, GPS signal subscriptions and finance and insurance products.

Throughout our 28-year operating history we have built an extensive, geographically contiguous network of 39 full service stores and two outlet stores located in the upper Midwest. We have a successful history of growth through acquisitions, including 17 acquisitions consisting of 34 stores operating in four states since January 1, 2003. We have a well-established track record of successfully integrating acquired stores, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our growth.

Certain External Factors Affecting our Business

We are subject to a number of factors that affect our business as discussed in the sections entitled "Risk Factors" and "Information Regarding Forward-Looking Statements." Certain of the external factors include, but are not limited to, the following:

Industry Factors

Our business is primarily driven by the demand for agricultural equipment for use in the production of food, fiber, feed grain and renewable energy; home and garden applications; and the maintenance of commercial, residential and government properties. Based on USDA data, we believe farmers are currently enjoying historically strong economical fundamentals, driven by growing global demand for agricultural commodities in part due to growth in renewable energy and the economies of developing countries. We believe our operating model, as discussed in "Business Titan Operating Model," enables us to maximize opportunities presented by strong economic fundamentals in the agricultural industries. Thus, we also expect to enjoy strong economic fundamentals by expanding existing stores and acquiring additional stores.

Additionally, our business is impacted by the demand for construction equipment for use in private and government commercial, residential and infrastructure construction; demolition; maintenance; mining and forestry operations. CNH and industry reports show that demand for construction equipment in our markets is driven by several factors, one of which is public infrastructure spending, including roads and highways, sewer and water. The projected growth in federal allocations to public infrastructure spending over the next few years, as stated by the U.S. Department of Transportation, should positively impact our future results of operations. However, an offsetting factor may be the recent declines in residential and commercial real estate development to the extent such declines continue. To address the uncertainty of the construction industry, we expect to continue our focus on agricultural industries and acquisition opportunities to establish additional locations in the markets where we believe the local construction industry will maintain its current level or grow.

If the positive trends in the agricultural industries cease to continue, we believe we would be in a position to operate efficiently. Our large and diverse customer base and four state geographic footprint limits our exposure to negative trends that may occur in a particular area or crop. Our management also implements a conservative expenditure philosophy that emphasizes scalable costs, which we believe positions us to operate efficiently in the event of a significant downturn in the agricultural industries.

Seasonality

Our quarterly operating results are subject to fluctuation due to varying weather patterns, which may impact the timing and amount of equipment, parts and service purchases by our customers. A significant increase in the severity of weather cycles could increase the volatility of our results of operations and impact our financial condition. If we acquire businesses in geographic areas other than where we currently have operations, we may be affected more by the above-mentioned or other seasonal and equipment buying trends.

Economic Cyclicity

Sales of equipment, particularly new units, historically have fluctuated with general economic cycles. During economic downturns, equipment retailers tend to experience similar periods of decline and recession as the general economy. The impact of an economic downturn on retailers is generally less than the impact on manufacturers due to the sale of parts and service by retailers to maintain customer equipment. As noted above, the agricultural industries are in a positive economic cycle from which we expect to benefit.

Credit Market Changes

Changes in credit markets can affect our customers' ability and willingness to make capital expenditures, including purchasing our equipment. Creditors have recently heightened their lending standards, we believe in part due to difficulties in the sub-prime mortgage market. Heightened lending standards may have a negative impact on our business if our customers are unable to obtain financing for equipment purchases. However, if interest rates continue to decrease, as recently occurred, our business may be positively affected by customers who find financing purchases of our equipment more attractive due to lower borrowing costs. We cannot predict what future changes will occur in credit markets or how these changes will impact our business.

Inflation

Inflation has not had a material impact upon operating results and we do not expect it to have such an impact in the future. To date, in those instances in which we have experienced cost increases, we have been able to increase selling prices to offset such increases. There can be no assurance, however, that our business will not be affected by inflation or that we can continue to increase our selling prices to offset increased costs and remain competitive.

Acquisitions

We have a successful history of growth through acquisitions. Since January 1, 2003, we have completed 17 acquisitions consisting of 34 stores operating in four states. These acquisitions have been the most significant factor affecting our results of operations and liquidity over the last several years, as noted in the period-to-period comparisons below. We expect that acquisitions will continue to be an important component of our growth. Acquisitions are typically financed with floorplan debt, long-term debt and cash from operations. Although we cannot quantify the impact of any such potential acquisitions, we believe the nature of their impact on our financial statements to be similar to that experienced with our prior acquisitions as noted in our discussions of period comparisons.

The following is a summary of acquisitions completed during the identified periods.

Fiscal 2009

On February 1, 2008, we acquired certain assets of Ceres Equipment Inc., resulting in the addition of one store in Roseau, Minnesota.

Fiscal 2008

On January 2, 2008, we acquired Avoca Operations, Inc. and Greenfield Operations, Inc., resulting in the addition of one store in Avoca, Iowa and one store in Greenfield, Iowa.

On December 1, 2007, we acquired Reiten & Young International, Inc., resulting in the addition of one store in Grand Forks, North Dakota.

On November 13, 2007, we acquired certain assets of Twin City Implement, Inc., resulting in the addition of one store in Mandan, North Dakota.

On August 1, 2007, we acquired all of the outstanding stock of Red Power International, Inc., resulting in the addition of two stores located in Ada and Crookston, Minnesota. We subsequently merged Red Power into our company.

On April 13, 2007, we acquired certain assets of Aberdeen Equipment Co., Huron Equipment Co. and Redfield Equipment Co., three related dealerships, resulting in the addition of three stores located in Aberdeen, Huron and Redfield, South Dakota.

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On February 3, 2007, we acquired certain assets of Richland County Implement, Inc., resulting in the addition of one store located in Wahpeton, North Dakota.

Fiscal 2007

On June 15, 2006, we acquired certain assets of Piorier Equipment Company, Inc. and RAJ Equipment, its related entity, resulting in the addition of four stores located in Sioux City, Iowa, Marshall, Minnesota and Rapid City and Sioux Falls, South Dakota.

On March 31, 2006, we acquired all of the outstanding stock of Farm Power, Inc. of Minnesota and its wholly-owned subsidiary, Fergus International, Inc., resulting in the addition of two stores located in Elbow Lake and Fergus Falls, Minnesota. In addition, as of the same date, we purchased the inventory of FPI Leasing, an entity related to Farm Power through common ownership. We subsequently merged Farm Power into our company.

Fiscal 2006

On November 1, 2005, we acquired certain assets of Vern Anderson, Inc., resulting in the addition of four stores located in Anthon, Cherokee, Kingsley and Le Mars, Iowa.

On November 1, 2005, we assumed management of the operations of a dealership formerly owned by Walterman Implement, Inc. located in Dike, Iowa. We subsequently acquired certain assets of the dealership and as of December 31, 2006 began to operate it as one of our stores.

On May 16, 2005, we acquired certain assets of H.C. Clark Implement Co., Inc., resulting in the addition of a store located in Aberdeen, South Dakota.

On March 1, 2005, we acquired certain assets of Smith International, Inc., resulting in the addition of a store located in Waverly, Iowa.

Critical Accounting Policies and Estimates

During the preparation of our financial statements, we are required to make estimates, assumptions and judgments that affect reported amounts. These estimates, assumptions and judgments include those related to bad debts and credit sales, inventories, goodwill and intangibles, income taxes and legal proceedings, revenue recognition, allowance for doubtful accounts, inventory reserves, incentive plan accruals, deferred taxes and stock-based compensation. We update these estimates, assumptions and judgments as appropriate, which in most cases is at least quarterly. We use our technical accounting knowledge, cumulative business experience, judgment and other factors in the selection and application of our accounting policies. While we believe our estimates, assumptions and judgments we use in preparing our financial statements are appropriate, they are subject to factors and uncertainties regarding their outcome and therefore, actual results may materially differ from these estimates. We believe the following are our primary critical accounting policies and estimates.

Revenue Recognition

Revenue on equipment and parts sales is recognized upon delivery of product to customers. Rental and service revenue is recognized at the time the related services are provided. In addition to outright sales of new and used equipment, certain rental agreements may include rent-to-purchase options. Under these agreements, customers are given a period of time to exercise an option to purchase the related equipment, with a portion of the rental payments being applied to the purchase price. This equipment is included in inventory until the purchase option is exercised. Rental revenue is recognized during the rental period, with equipment sales revenue being recognized upon the exercise of the purchase option.

Inventories

New and used machinery are stated at the lower of cost (specific identification method) or market with adjustments for decreases in market value on inventory rented but available for sale being a percentage (80%) of the rental income received on such inventory. Equipment held specifically for lease is reported as inventory held for rental. Parts inventory is valued at the lower of average cost or market, and parts inventory not expected to be sold in the next operating cycle has been reported separately. Typically, there are no freight-in charges, except in cases of special orders where such freight-in charges are included in the cost of inventory.

Intangible Assets and Goodwill

Goodwill is reviewed for possible impairment at least annually, or more frequently upon the occurrence of events or circumstances that may affect its fair value. As of January 31, 2008, the carrying value of goodwill was not considered impaired. Intangible assets include covenants not-to-compete that are being amortized using the straight-line method over the lives of the related agreements, which range from five to 15 years.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, inventory, property and equipment, intangible assets, stock-based compensation, and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Our policy is to recognize interest expense and penalties related to income tax matters within our provision for income taxes.

Stock-Based Compensation

We accounted for stock options in accordance with the provisions of the Financial Accounting Standards Board (FASB) Statement No. 123 (Revised), *Share-Based Payments*. Statement FAS 123(R) requires that share-based compensation, which includes stock options, be accounted for at the fair value of the applicable equity instrument. We utilized the Black Scholes option pricing model to value stock options.

Key Financial Metrics

In addition to tracking our sales and expenses to evaluate our operational performance, we also monitor certain key financial metrics, including absorption and same-store sales.

Absorption

Absorption is an industry term that refers to the percentage of an equipment dealer's fixed operating expense covered by the gross margin of its combined parts and service businesses. Absorption in a given period is calculated by dividing our gross profit from parts and service sales in the period by the difference between (i) our operating expenses (including interest on floorplan notes) and (ii) our variable expense of sales commissions on equipment sales and incentive compensation in the same period. We believe that absorption is an important management metric because during economic down cycles our customers tend to postpone new and used equipment purchases while continuing to run, maintain and repair their existing equipment. Thus, operating at a high absorption rate enables us to operate profitably throughout economic down cycles. We measure and track absorption on a company-wide basis as well as on a per store basis. For fiscal 2008, our company-wide absorption rate

was 72.6%; for fiscal 2007, our company-wide absorption rate was 75.9%; and for fiscal 2006, our company-wide absorption rate was 74.4%.

Same-Store Sales

Same-store sales for any period represent sales by stores that were part of our company for the entire comparable period in the preceding fiscal year. We do not distinguish relocated or newly-expanded stores in this same-store analysis. Closed stores are excluded from the same-store analysis. We believe that tracking this metric is important to evaluating the success of the Titan Operating Model on a comparable basis.

Key Financial Statement Components

Revenue

Equipment. We derive equipment revenue from the sale of new and used agricultural and construction equipment.

Parts. We derive parts revenue from the sale of parts for equipment that we sell and rent, as well as for other equipment makes. Our parts sales provide us with a relatively stable revenue stream that is less sensitive to the economic cycles that affect our equipment sales.

Services. We derive services revenue from maintenance and repair services to our customers' equipment. Our repair and maintenance services provide a high-margin, relatively stable source of revenue through changing economic cycles.

Other. We derive other revenue from equipment rentals and ancillary equipment support activities such as equipment transportation, GPS signal subscriptions and reselling finance and insurance products.

Cost of Revenue

Equipment. Cost of equipment revenue is the lower of the acquired cost or the market value of the specific piece of equipment sold.

Parts. Cost of parts revenue is the lower of the acquired cost or the market value of the parts sold, based on average costing.

Service. Cost of service revenue represents costs attributable to services provided for the maintenance and repair of customer-owned equipment and equipment then on-rent by customers.

Other. Costs of other revenue represent costs associated with equipment rental, providing transportation, hauling, parts freight, GPS subscriptions and damage waivers, including, among other items, drivers' wages, fuel costs, shipping costs and our costs related to damage waiver policies.

Operating Expenses

Our operating expenses include sales and marketing expenses, sales commissions (which generally are based upon equipment gross profit margins), payroll and related benefit costs, insurance expenses, professional fees, property and other taxes, administrative overhead, and depreciation associated with property and equipment (other than rental equipment).

Floorplan Interest

The cost of financing inventory is an important factor affecting our results of operations. Floorplan financing from CNH Capital represents the primary source of financing for equipment inventories,

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particularly for equipment supplied by CNH. We also have credit facilities for financing of equipment inventories with Bremer Bank and GE Commercial Distribution Finance Corporation. Historically, approximately 80% to 90% of our inventory has been subject to floorplan financing. CNH regularly offers interest-free periods as well as additional incentives and special offers. Throughout the fiscal year ended January 31, 2008, approximately 67% of our equipment inventory was subject to non-interest bearing floorplan financing.

Other Interest Expense

Interest expense represents the interest on our outstanding debt instruments, other than floorplan financing facilities.

Results of Operations

Comparative financial data for each of our four sources of revenue for fiscal 2008, 2007 and 2006 are expressed below. The results of these periods include the operating results of the acquisitions made during these periods. The period-to-period comparisons included below are not necessarily indicative of future results.

	Year ended January 31,		
	2008	2007	2006
	(dollars in thousands)		
Equipment			
Revenue	\$ 338,382	\$ 220,958	\$ 175,549
Cost of revenue	302,320	200,558	160,814
	\$ 36,062	\$ 20,400	\$ 14,735
Gross profit			
Parts			
Revenue	\$ 58,743	\$ 42,619	\$ 31,099
Cost of revenue	42,568	29,909	22,459
	\$ 16,175	\$ 12,710	\$ 8,640
Gross profit			
Service			
Revenue	\$ 27,344	\$ 21,965	\$ 16,572
Cost of revenue	10,118	8,183	6,404
	\$ 17,226	\$ 13,782	\$ 10,168
Gross profit			
Other, including trucking and rental			
Revenue	\$ 8,502	\$ 7,056	\$ 5,250
Cost of revenue	5,913	5,337	4,081
	\$ 2,589	\$ 1,719	\$ 1,169
Gross profit			

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The following table sets forth our statements of operations data expressed as a percentage of revenue for the periods indicated.

	Year ended January 31,		
	2008	2007	2006
Revenue			
Equipment	78.1%	75.5%	76.8%
Parts	13.6%	14.6%	13.6%
Service	6.3%	7.5%	7.3%
Other, including trucking and rental	2.0%	2.4%	2.3%
	100%	100%	100%
Cost of Revenue			
Equipment	69.8%	68.6%	70.4%
Parts	9.8%	10.2%	9.8%
Service	2.4%	2.8%	2.8%
Other, including trucking and rental	1.4%	1.8%	1.8%
	83.4%	83.4%	84.8%
Gross profit	16.6%	16.6%	15.2%
Operating expenses	12.3%	12.8%	11.8%
Income from operations	4.3%	3.8%	3.4%

Fiscal Year Ended January 31, 2008 Compared to Fiscal Year Ended January 31, 2007

Revenue

	Fiscal year ended January 31, 2008	Fiscal year ended January 31, 2007	Increase	Percent change
	(dollars in thousands)			
Total revenue	\$ 432,971	\$ 292,598	\$ 140,373	48.0%
Equipment	\$ 338,382	\$ 220,958	\$ 117,424	53.1%
Parts	\$ 58,743	\$ 42,619	\$ 16,124	37.8%
Service	\$ 27,344	\$ 21,965	\$ 5,379	24.5%
Other, including trucking and rental	\$ 8,502	\$ 7,056	\$ 1,446	20.5%

The increase in revenue was primarily due to the following three items: acquisitions, same-store sales growth and a manufacturer leasing program. The acquired stores contributed \$74.6 million in additional total revenue, or 53.1% of the increase, while the leasing program transactions totaled \$22.4 million, or 16.0%. Manufacturer leasing programs are offered from time to time but the frequency and terms of these programs cannot be predicted. The remaining increase of \$43.4 million is attributable to same-store sales growth of 16.8%, which is reflective of the strong market for our products, particularly in the area of equipment sales. We believe equipment sales were strong in fiscal 2008 due to the growth in global demand for agricultural commodities and the positive impact this commodity demand has had on farm income. We anticipate favorable market conditions will, at a minimum, continue into the first half of fiscal 2009, assuming normal weather conditions.

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Cost of Revenue

	Fiscal year ended January 31, 2008	Fiscal year ended January 31, 2007	Increase	Percent change
(dollars in thousands)				
Total cost of revenue	\$ 360,919	\$ 243,987	\$ 116,932	47.9%
Equipment	\$ 302,320	\$ 200,558	\$ 101,762	50.7%
Parts	\$ 42,568	\$ 29,909	\$ 12,659	42.3%
Service	\$ 10,118	\$ 8,183	\$ 1,935	23.6%
Other, including trucking and rental	\$ 5,913	\$ 5,337	\$ 576	10.8%

The increase in cost of revenue of \$116.9 million was due to revenue increases attributable primarily to acquisitions, same-store sales growth and the leasing program, as noted above. Acquisitions contributed \$62.2 million to the cost of revenue, while the leasing program added another \$20.2 million, which is 53.2% and 17.3%, respectively, of the total increase in cost of revenue from the prior fiscal year. The remainder of the increase in cost of revenue is reflective of the increase in same-store sales. As a percentage of revenue, cost of revenue was 83.4% in fiscal 2008, matching the prior fiscal year's results.

Gross Profit

	Fiscal year ended January 31, 2008	Fiscal year ended January 31, 2007	Increase	Percent change
(dollars in thousands)				
Total gross profit	\$ 72,052	\$ 48,611	\$ 23,441	48.2%
Equipment	\$ 36,062	\$ 20,400	\$ 15,662	76.8%
Parts	\$ 16,175	\$ 12,710	\$ 3,465	27.3%
Service	\$ 17,226	\$ 13,782	\$ 3,444	25.0%
Other, including trucking and rental	\$ 2,589	\$ 1,719	\$ 870	50.6%

Of the \$23.4 million increase in gross profit in fiscal 2008, acquisitions contributed \$12.4 million, which is 53.0% of the total increase in gross profit, while the leasing program added another \$2.2 million. Same-store gross profits provided the remainder of the gross profit improvement, primarily due to the increase in same-store sales. Total gross profit margins remained even at 16.6% for both fiscal 2008 and 2007. Normally, a higher percentage of equipment sales would cause total gross margins to decline, but equipment margins were high in fiscal 2008 relative to historical levels reflecting a significant increase in demand and partially enhanced by a manufacturer market share incentive bonus program. We recorded this incentive bonus in the fourth quarter of fiscal 2008 by achieving annual market share targets established by CNH for product lines within the regions in which we market our products. We expect to be eligible to receive a similar bonus in fiscal 2009 if we achieve certain market share goals.

Operating Expenses

	Fiscal year ended January 31, 2008	Fiscal year ended January 31, 2007	Increase	Percent change
(dollars in thousands)				
Operating expenses	\$ 53,190	\$ 37,399	\$ 15,791	42.2%

The increase in operating expenses is primarily due to the additional costs associated with acquisitions. As a percentage of total revenue, operating expenses decreased to 12.3% in fiscal 2008 from 12.8% in fiscal 2007. This decrease was primarily driven by the strong sales in fiscal 2008 resulting in improved fixed operating expense utilization as a percentage of sales.

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Other Income (Expense)

	Fiscal year ended January 31, 2008	Fiscal year ended January 31, 2007	Increase	Percent change
(dollars in thousands)				
Interest and other income	\$ 577	\$ 349	\$ 228	65.3%
Floorplan interest expense	\$ (3,813)	\$ (3,294)	\$ 519	15.8%
Interest expense	\$ (2,480)	\$ (2,179)	\$ 301	13.8%
Debt retirement costs	\$ (3,824)	\$ 0	\$ 3,824	N/A%

Floorplan interest expense increased \$0.5 million due to higher levels of floorplan debt in fiscal 2008 compared to fiscal 2007. The higher floorplan debt is driven by increased equipment inventory levels resulting from acquisitions. The \$300,000 increase in interest expense was due to additional long-term debt incurred primarily in connection with acquisitions.

In conjunction with our December 2007 initial public offering, we exchanged or converted all \$6.4 million in aggregate principal amount of our outstanding convertible subordinated debentures for 2,308,648 shares of our common stock and retired \$9.4 million in subordinated debentures. As a result of these transactions, we recognized debt retirement costs of \$3.8 million in the fourth quarter of fiscal 2008. This debt reduction will result in lower interest expense in fiscal 2009.

Provision for Income Taxes

	Fiscal year ended January 31, 2008	Fiscal year ended January 31, 2007	Increase	Percent change
(dollars in thousands)				
Provision for income taxes	\$ 4,110	\$ 2,450	\$ 1,660	67.8%

The effective tax rate as a percentage of income before taxes increased to 44.1% in fiscal 2008 from 40.2% in fiscal 2007. The increase resulted from an unrecognized tax benefit of \$420,000 in the fourth quarter of fiscal 2008. If we recognize this tax benefit in the future, our effective tax rate will be favorably impacted.

Fiscal Year Ended January 31, 2007 Compared to Fiscal Year Ended January 31, 2006

Revenue

	Fiscal year ended January 31, 2007	Fiscal year ended January 31, 2006	Increase	Percent change
(dollars in thousands)				
Total revenue	\$ 292,598	\$ 228,470	\$ 64,128	28.1%
Equipment	\$ 220,958	\$ 175,549	\$ 45,409	25.9%
Parts	\$ 42,619	\$ 31,099	\$ 11,520	37.0%
Service	\$ 21,965	\$ 16,572	\$ 5,393	32.5%
Other, including trucking and rental	\$ 7,056	\$ 5,250	\$ 1,806	34.4%

The increase in revenue is primarily due to the two acquisitions completed during fiscal 2007 described above. In addition, our revenue growth is reflective of the strong market for our products and resulting from the growth in the global demand for agricultural commodities, net farm income, governmental subsidies and public infrastructure spending. The fiscal 2007 acquisitions contributed \$34.9 million in total revenue, or 54.4% of the year-over-year increase. The remaining increase is attributable to the impact of having stores acquired in fiscal 2006 in our operating system for a full fiscal year and same-store sales growth. Same-store sales of \$194.6 million were recorded in fiscal 2007, representing a 5.1% increase compared to the sales by these stores in fiscal 2006. Same-store sales growth in fiscal 2007 was lower than in fiscal 2006 due to a significant decrease in equipment sales at

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our then highest equipment volume store resulting from that store's change in sales practice away from high-volume, low-margin sales to a preferred strategy of focusing on higher-margin sales, which resulted in lower volume at that store.

Cost of Revenue

	<u>Fiscal year ended January 31, 2007</u>		<u>Fiscal year ended January 31, 2006</u>	<u>Increase</u>	<u>Percent change</u>
(dollars in thousands)					
Total cost of revenue	\$ 243,987	\$	193,758	\$ 50,229	25.9%
Equipment	\$ 200,558	\$	160,814	\$ 39,744	24.7%
Parts	\$ 29,909	\$	22,459	\$ 7,450	33.2%
Service	\$ 8,183	\$	6,404	\$ 1,779	27.8%
Other, including trucking and rental	\$ 5,337	\$	4,081	\$ 1,256	30.8%

The increase in cost of revenue is primarily due to the additional costs associated with the operation of newly acquired stores. The acquisitions made in fiscal 2007 contributed \$27.9 million to the cost of revenue for fiscal 2007, which is 55.6% of the total increase in cost of revenue year-over-year. The remainder of the increase in cost of revenue is due to inventory costs to support our higher sales. As a percentage of revenue, cost of revenue was 83.3% in fiscal 2007, compared to 84.8% in fiscal 2006. This percentage of revenue decrease is attributable to growth in the higher margin parts and services revenue relative to equipment revenue.

Gross Profit

	<u>Fiscal year ended January 31, 2007</u>		<u>Fiscal year ended January 31, 2006</u>	<u>Increase</u>	<u>Percent change</u>
(dollars in thousands)					
Total gross profit	\$ 48,611	\$	34,712	\$ 13,899	40.0%
Equipment	\$ 20,400	\$	14,735	\$ 5,665	38.4%
Parts	\$ 12,710	\$	8,640	\$ 4,070	47.1%
Service	\$ 13,782	\$	10,168	\$ 3,614	35.5%
Other, including trucking and rental	\$ 1,719	\$	1,169	\$ 550	47.0%

The fiscal 2007 acquisitions contributed \$7.0 million to gross profit, which is the primary reason for the increase over fiscal 2006. Also contributing to the gross profit improvement was the impact of having stores acquired in fiscal 2006 in our operating system for a full fiscal year and same-store sales growth. Gross profit margins were 16.7% in fiscal 2007, compared to 15.2% in fiscal 2006.

Operating Expenses

	<u>Fiscal year ended January 31, 2007</u>		<u>Fiscal year ended January 31, 2006</u>	<u>Increase</u>	<u>Percent change</u>
(dollars in thousands)					
Operating expenses	\$ 37,399	\$	26,978	\$ 10,421	38.6%

The increase in operating expenses is primarily due to the additional costs associated with acquisitions. As a percentage of total revenue, operating expenses increased to 12.8% in fiscal 2007 from 11.8% in fiscal 2006, primarily due to an increase in sales commissions based upon increased equipment gross profits. Other factors contributing to the increase in operating expenses include an increase in sales and other promotional activities and administrative costs in fiscal 2007.

Other Income (Expense)

	<u>Fiscal year ended January 31, 2007</u>		<u>Fiscal year ended January 31, 2006</u>		<u>Increase</u>	<u>Percent change</u>
(dollars in thousands)						
Interest and other income	\$ 349	\$	87	\$	262	301.2%
Floorplan interest expense	\$ (3,294)	\$	(2,296)	\$	998	43.5%
Interest expense	\$ (2,179)	\$	(1,072)	\$	1,107	103.3%

The increase in interest and other income is attributable to acquisitions made in fiscal 2007 increasing our total amount of debt. The primary reason for the increase in floorplan interest expense is the increased amount of floorplan debt related to inventory that we incurred in fiscal 2007. Of the increase in floorplan interest expense, \$475,000 is attributable to additional inventory related to stores acquired in fiscal 2007 and \$523,000 is attributable to additional inventory related to the other stores. The primary reason for the increase in interest expense relates to the issuance of \$7.5 million of subordinated debt to CNH Capital and additional long-term debt primarily in connection with acquisitions.

Provision for Income Taxes

	<u>Fiscal year ended January 31, 2007</u>		<u>Fiscal year ended January 31, 2006</u>		<u>Increase</u>	<u>Percent change</u>
(dollars in thousands)						
Provision for income taxes	\$ 2,450	\$	1,721	\$	729	42.4%

The effective tax rate as a percentage of income before taxes increased to 40.2% in fiscal 2007 from 38.6% in fiscal 2006. Our effective tax rate reflects the full federal and state statutory rates on taxable income. Variations in the effective tax rate reflect the changing mix of sales made in states with different tax rates.

Liquidity and Capital Resources*Cash Flow From Operating Activities*

During fiscal 2008, our operating activities provided net cash flow of \$12.5 million. Our cash flows from operations were primarily the result of our reported net income of \$5.2 million, non-cash adjustments to net income for depreciation of \$2.4 million and for debt retirement costs of \$2.4 million, an increase in customer deposits of \$14.7 million and an increase in accrued expenses of \$3.5 million. These operating cash inflows were principally offset by an increase in receivables of \$8.5 million, an increase in inventories of \$3.2 million and a decrease in floorplan payables of \$4.4 million. The large increase in customer deposits and receivables is representative of our growth through acquisitions and strong fiscal 2008 fourth quarter activity.

During fiscal 2007, our operating activities provided net cash flow of \$6.5 million. Our cash flows from operations were primarily the result of our reported net income of \$3.6 million, a receivables increase of \$5.1 million and an inventory increase of \$286,000, which were offset by an increase in floorplan notes payable (unrelated to acquisitions) of \$2.9 million, floorplan notes payable (related to acquisitions) of \$4.9 million and an increase in customer deposits of \$594,000.

Cash Flow From Investing Activities

During fiscal 2008, cash used for investing activities was \$16.3 million. Our cash used for investing activities primarily consisted of purchases of equipment dealerships (net of cash purchased) of \$10.1 million and property and equipment purchases of \$6.3 million. Our property and equipment

purchases in fiscal 2008 were higher than the prior fiscal year primarily due to the purchase of a designated rental fleet of \$2.8 million.

During fiscal 2007, cash used for investing activities was \$14.0 million. Our cash used for investing activities related to purchases of equipment dealerships (net of cash purchased) of \$12.1 million and property and equipment purchases of \$2.0 million. This was partially offset by net proceeds from equipment disposals of \$120,000.

Cash Flow From Financing Activities

During fiscal 2008, cash provided by financing activities was \$39.1 million. Cash provided by financing activities was primarily the result of \$41.8 million in net proceeds from our initial public offering. Partially offsetting these proceeds were principal payments on long-term debt exceeding proceeds from long-term debt by \$2.3 million.

During fiscal 2007, cash provided by financing activities was \$6.4 million. Cash provided by financing activities was primarily the result of proceeds from long-term debt borrowings and subordinated debentures related to acquisitions of \$5.4 million, proceeds from fixed asset financing related to acquisitions of \$1.6 million, proceeds from long-term debt borrowings and subordinated debentures unrelated to acquisitions of \$1.3 million and an increase in the net change in non-manufacturer floorplan payables of \$203,000. Partially offsetting the cash provided by financing activities were principal payments on long-term debt of \$2.1 million and an increase in subordinated debt interest accruals of \$202,000.

Debt Facilities

Bremer Bank Credit Facility. We currently have a credit facility with Bremer that provides for a \$2.0 million floorplan line of credit, a \$12.0 million operating line of credit and two term loans in the aggregate amount of \$10.0 million. The floorplan and operating lines of credit each have a variable interest rate of 0.25% per annum below the prime rate. The term debt has an 8% per annum fixed interest rate. The floorplan and operating lines of credit require monthly payments of interest due and have maturity dates of August 1, 2008, and the two term loans require aggregate monthly payments of principal and interest of \$202,000 and have maturity dates of August 2012 and December 2012. The Bremer credit facility is secured by a personal guarantee of our Chief Executive Officer. As of January 31, 2008, we had no amount outstanding on the Bremer operating line of credit, \$9.4 million outstanding on the term debt and \$350,000 of outstanding floorplan financing. The Bremer credit facility contains various restrictive covenants that require prior consent of Bremer if we desire to make any loans or advances to any person. In addition, the Bremer credit facility restricts our ability to incur indebtedness or liens, places restrictions on our ability to merge or consolidate with any person, or sell, lease, assign, transfer or otherwise dispose of any of our assets other than in the ordinary course of business. In addition, the consent of Bremer is required for the acquisition of any dealership.

CNH Capital Credit Facility. We currently have a credit facility with CNH Capital that provides for an aggregate principal balance of up to \$200.0 million for floorplan financing. The CNH Capital facility also provides for term loans, which typically have one to three year terms. The interest rate under the CNH Capital floorplan line of credit is equal to the prime rate plus 0.3% per annum for most purposes, subject to any interest-free periods offered by CNH. The CNH Capital term loans and loans for certain purposes have an interest rate equal to the prime rate plus 1.6% per annum. Cumulative and unpaid balance of advances under the CNH Capital credit facility accrues interest each month and requires monthly payments. The expiration date for the CNH Capital credit facility is August 31, 2008, with annual renewals through August 31, 2012, unless earlier terminated. The CNH Capital credit facility is secured by all of our assets. As of January 31, 2008, we had approximately \$97.1 million outstanding on the CNH Capital credit facility. The CNH Capital credit facility contains

various restrictive covenants that require prior consent of CNH Capital if we desire to engage in any acquisition of, consolidation or merger with any other business entity in which we are not the surviving company; move any collateral outside of the U.S.; or sell, rent, lease or otherwise dispose or transfer any of the collateral, other than in the ordinary course of business. CNH's consent is also required for the acquisition of any CNH dealership. In addition, the CNH Capital credit facility restricts our ability to incur any liens upon any substantial part of our assets.

Other Indebtedness with CNH Capital. CNH Capital periodically provides loans for fixed asset financing in connection with acquisitions. Related to this acquisition financing, we have various term loans with CNH Capital. The aggregate principal amount of these terms loans was approximately \$1.2 million at January 31, 2008. We also obtained various fixed rate notes with rates ranging from 3.25% to 10.35% and variable rate notes at prime plus 0.3% from CNH, which are secured by our designated rental fleet. The amount of our rental fleet notes as of January 31, 2008, was \$1.9 million. Finally, we periodically incur indebtedness with CNH in the form of parts term notes when we acquire new dealerships. These notes typically have terms of 1.5 to 3.0 years and either bear no interest or bear interest at variable rates. At January 31, 2008, we had approximately \$3.1 million in parts term notes outstanding.

GE Credit Facility. We currently have a credit facility with GE, whereby GE may make loans to us from time to time to purchase inventory from GE-approved vendors and for other working capital purposes. The credit limit on the GE facility is \$5.0 million. The GE facility has a variable, transaction-based interest rate that has typically been equal to the prime rate plus 0.25% per annum. The GE facility is secured by all of our equipment inventory that is financed by the GE facility, as well as our accounts receivable, deposit accounts and our other assets. The GE credit facility contains various restrictive covenants that require prior consent of GE if we desire to engage in the sale, consignment or other disposal of any collateral financed by GE outside of the ordinary course of business, merge or consolidate with any other entity, or move any collateral outside of the U.S.

Certain Other Debt. In connection with various acquisitions, we have issued subordinated debentures in an aggregate principal amount of \$1.3 million. These debentures bear interest at 9% or 10% per annum and mature in March 2010, May 2010 and December 2010.

Sources of Liquidity

Our primary sources of liquidity are cash reserves, cash flow from operations, proceeds from the issuance of debt and our borrowings under the Bremer, CNH Capital and GE credit facilities. We expect that ongoing requirements for debt service and capital expenditures will be funded from these sources.

Adequacy of Capital Resources

Our primary uses of cash have been to fund our strategic acquisitions, finance the purchase of inventory, meet debt service requirements and fund operating activities, working capital, payments due under building space operating leases and manufacturer floorplans payable. The primary factors affecting our ability to generate cash and to meet existing, known or reasonably likely cash requirements are the timing and extent of acquisitions and our operating performance as impacted by (i) industry factors, which are currently positive, (ii) competition, (iii) general economic conditions and (iv) other business factors as identified in "Risk Factors."

For fiscal 2008 and 2007, we spent \$6.3 million and \$2.0 million on property and equipment, respectively, exclusive of acquisitions. Our property and equipment purchases in fiscal 2008 were higher than the prior fiscal year primarily due to the purchase of a designated rental fleet of \$2.8 million. While we do not have any material commitments for capital expenditures for fiscal 2009, we expect our

equipment expenditures, exclusive of acquisitions, for fiscal 2009 will decrease to approximately \$4.0 to \$5.0 million. The actual amount of our fiscal 2009 equipment expenditures will depend upon factors such as general economic conditions, growth prospects for our industry and our acquisition activity. We currently expect to finance equipment purchases with borrowings under the existing credit facilities, with available cash including from the proceeds of this offering or with cash flow from operations. We may need to incur additional debt if we pursue any future acquisitions.

Our ability to service our debt will depend upon our ability to generate the necessary cash. This will depend on our future acquisitions activity, operating performance, general economic conditions, and financial, competitive, business and other factors, some of which are beyond our immediate control. Based on our current operational performance, we believe our cash flow from operations, available cash and available borrowings under the existing credit facilities will adequately provide our liquidity needs for, at a minimum, the next 12 months.

We cannot assure you, however, that our business will generate sufficient cash flow from operations or that future borrowings will be available under the Bremer, CNH Capital and GE credit facilities in amounts sufficient to allow us to service our indebtedness and to meet our other commitments. If we are unable to generate sufficient cash flow from operations or to obtain sufficient future borrowings, we may be required to seek one or more alternatives such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. We cannot assure you that we will be able to succeed with one of these alternatives on commercially reasonable terms, if at all. In addition, if we pursue strategic acquisitions, we may require additional equity or debt financing to consummate the transactions, and we cannot assure you that we will succeed in obtaining this financing on favorable terms or at all. If we incur additional indebtedness to finance any of these transactions, this may place increased demands on our cash flow from operations to service the resulting increased debt. Our existing debt agreements contain restrictive covenants that may restrict our ability to adopt any of these alternatives. Any non-compliance by us under the terms of our debt agreements could result in an event of default which, if not cured, could result in the acceleration of our debt.

Certain Information Concerning Off-Balance Sheet Arrangements

As of January 31, 2008, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships. In the normal course of our business activities, we lease rental equipment under operating leases.

Contractual and Commercial Commitment Summary

Our contractual obligations and commercial commitments as of January 31, 2008 are summarized below:

Contractual Obligations	Payments Due By Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
(dollars in thousands)					
Long-term debt obligations(1)	\$ 21,883	\$ 6,836	\$ 8,619	\$ 5,837	\$ 590
Operating lease obligations(2)	39,742	3,792	6,550	5,560	23,840
Other long-term liabilities(3)	1,632	146	1,486		
Total	\$ 63,257	\$ 10,774	\$ 16,655	\$ 11,397	\$ 24,430

- (1) Includes obligations under notes payable issued in favor of our lenders and estimates of interest payable.
- (2) Includes rental payment obligations under operating leases related to our stores. Amounts do not include insurance, tax, or maintenance costs, which we include in operating expenses and which we estimate will be approximately \$442,656 for the less than 1 year period, \$780,564 for the 1-3 year period, \$819,661 for the 3-5 year period, and \$4,125,331 for the more than 5 years period, for a total of \$6,168,212. See Note 11 to our audited financial statements for a description of our operating lease obligations.
- (3) Includes outstanding amounts under our subordinated debentures and estimates of interest payable.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices such as interest rates. For fixed rate debt, interest rate changes affect the fair value of financial instruments but do not impact earnings or cash flows. Conversely, for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors are held constant. During fiscal 2008, we renegotiated or executed several new credit facilities. Many of these credit agreements are floating rate facilities now containing minimum rates of interest to be charged. We have also entered into fixed rate financing. Based upon balances and interest rates as of January 31, 2008, holding other variables constant, a one percentage point increase in interest rates for the next 12-month period would decrease pre-tax earnings and cash flow by approximately \$408,000. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately \$408,000. At January 31, 2008, we had variable rate floorplan notes payable of \$105.8 million, of which approximately \$36.9 million was interest-bearing, variable notes payable and long-term debt of \$3.9 million, and fixed rate notes payable and long-term debt of \$16.1 million.

Our policy is not to enter into derivatives or other financial instruments for trading or speculative purposes.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. SFAS 157 is effective

for the fiscal year beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of this standard will have on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of this standard will have on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*. SFAS 141R provides additional guidance on improving the relevance, representational faithfulness, and comparability of the financial information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are in the process of evaluating the effect that the adoption of this standard will have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS 160 applies to all entities that prepare consolidated financial statements and have an outstanding noncontrolling interest in one or more subsidiaries. SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are in the process of evaluating the effect that the adoption of this standard will have on our financial statements.

On December 21, 2007 the SEC staff issued Staff Accounting Bulletin No. 110, which, effective January 1, 2008, amends and replaces SAB 107, *Share-Based Payment*. SAB 110 expresses the views of the SEC staff regarding the use of a "simplified" method in developing the expected life assumption in accordance with FASB Statement No. 123(R), *Share-Based Payment*. The use of the "simplified" method, was scheduled to expire on December 31, 2007. SAB 110 extends the use of the "simplified" method in certain situations. The SEC staff does not expect the "simplified" method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. We plan to track and capture employee exercise behavior in the future as a basis for our valuation assumptions. We currently use simplified estimates as no options have yet been exercised.

BUSINESS

Our Company

Overview

We own and operate what we believe is one of the largest networks of full service agricultural and construction equipment stores in North America. Based upon information provided to us by CNH Global N.V. or its U.S. subsidiary CNH America LLC, collectively referred to in this prospectus as CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. We sell and rent agricultural and construction equipment, sell parts, and service the equipment in the areas surrounding our stores.

The agricultural equipment we sell and service includes machinery and attachments for uses ranging from large-scale farming to home and garden use. The construction equipment we sell and service includes heavy construction and light industrial machinery for commercial and residential construction, road and highway construction and mining. We engage in four principal business activities:

new and used equipment sales;

parts sales;

repair and maintenance services; and

equipment rental and other activities.

The new equipment and parts we sell are supplied primarily by CNH. CNH is a leading manufacturer and supplier of agricultural and construction equipment, primarily through the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. We acquire used equipment for resale through trade-ins from our customers and selective purchases. We also sell parts and provide in-store and on-site repair and maintenance services. We also rent equipment and provide other ancillary services such as equipment transportation, GPS signal subscriptions and finance and insurance products.

We offer our customers a one-stop solution by providing equipment and parts sales, repair and maintenance services and rental functions in each store. Our full service approach provides us with multiple points of customer contact and substantial cross-selling opportunities. We believe our mix of equipment and recurring parts and service sales enables us to operate effectively throughout economic cycles. We also believe our significant scale, superior customer service, diverse and stable customer base, proven management reporting system and experienced management team provide us with a competitive advantage in many of our local markets.

Throughout our 28-year operating history we have built an extensive, geographically contiguous network of 39 full service stores and two outlet stores. Our agricultural equipment stores are located in highly productive farming regions, including the Red River valley in eastern North Dakota and northwestern Minnesota and western portions of the corn belt in Iowa, eastern South Dakota and southern Minnesota. Our construction equipment stores operate in markets where we also sell agriculture equipment and are located close to the growing regional trade centers of Fargo and Bismarck, North Dakota, and Rapid City and Sioux Falls, South Dakota, as evidenced by the increase in GDP for each area for the years 2001 through 2005 as reported by the Bureau of Economic Analysis of the U.S. Department of Commerce.

Our executives have extensive industry experience. David Meyer, our Chairman and Chief Executive Officer, founded our company in 1980. In 2002, we acquired two stores owned by C.I. Farm Power, Inc., a business owned by our President and Chief Financial Officer, Peter Christianson, which he co-founded in 1988. Based on our collective industry experience, we developed the Titan Operating

Model, which combines management accountability and decision-making at the store level with centralized, back-office support. In addition, our executives work closely with our store managers to develop the managers' industry knowledge and ensure these managers achieve operational excellence in line with our management philosophy.

We have a history of successful growth through acquisitions. Since January 1, 2003, we have completed 17 acquisitions consisting of 34 stores operating in four states, including three acquisitions consisting of four stores completed since our initial public offering on December 11, 2007. We have a well-established track record of successfully integrating acquired stores through the Titan Operating Model, retaining acquired-store employees and maintaining acquired-store customer relationships. We expect that acquisitions will continue to be an important component of our growth.

Industry Overview

Agricultural Equipment Industry

Agricultural equipment is purchased primarily for the production of food, fiber, feed grain and renewable energy. It is also purchased for home and garden applications and maintenance of commercial, residential and government properties. IBISWorld data reports that total revenue for U.S. farm and garden equipment dealers was \$51.8 billion in 2006 and is projected to grow to \$53.5 billion by 2012, as adjusted for inflation. Deere & Company, CNH and AGCO Corporation are the largest global manufacturers and supply a full line of equipment and parts that address the primary machinery requirements of farmers. In 2007, revenue from agriculture operations was \$12.1 billion for Deere & Company, \$9.9 billion for CNH and \$6.8 billion for AGCO. In addition to the major manufacturers, several short-line manufacturers produce specialized equipment that addresses regional and niche requirements of farmers. Agricultural equipment manufacturers typically grant dealers in the U.S. authorized store locations, not exclusive territories, to distribute their products.

According to IBISWorld reports, there are many factors that influence demand for agricultural equipment, parts and repair and maintenance services, including commodity prices, interest rates, general economic conditions and weather. Conditions can fluctuate drastically in a short time period, creating volatility in demand, especially for equipment, in a given year. Government subsidies also influence demand for agricultural equipment. Legislation, most notably the U.S. Farm Bill and the Farm Security and Rural Investment Act of 2002, attempts to stabilize the agriculture industry through USDA subsidies. USDA subsidies include (i) commodity programs consisting of direct, counter-cyclical and price support payments to farmers; (ii) conservation programs; and (iii) disaster relief programs. In 2006, total USDA subsidies in the U.S. equaled \$13.4 billion dollars, with \$2.8 billion paid to farmers in the states in which we operate stores: Iowa, Minnesota, North Dakota and South Dakota. We believe USDA subsidies reduce financial volatility and help ensure that farmers operate their farms and equipment during economic down cycles, thus stabilizing demand for equipment, replacement parts and repair and maintenance services.

Currently, the USDA reports that U.S. farmers are enjoying historically strong economic fundamentals. U.S. annual net farm income since 2000 has averaged \$61.1 billion, compared to average annual net farm income during the 1990s of approximately \$48 billion, as adjusted for inflation. In 2007, U.S. net farm income was \$88.6 billion and the USDA projects this amount to grow to \$99.4 billion by 2017, as adjusted for inflation. In addition, farm balance sheets are strong, with the average debt-to-asset ratio for U.S. farmers in 2007 equal to 9.9%, the lowest level since the late 1950s.

Growing global demand for agricultural commodities is primarily responsible for the current and projected strength of the U.S. farm economy. Many factors are contributing to growth in demand, including rapid expansion of ethanol and biodiesel production throughout the world and the growing economies of developing countries, most notably India and China. According to the USDA, in 2006, 2.2 billion bushels of corn, approximately 20.4% of the total U.S. crop, were used for ethanol

production. The USDA has stated that in 2007, the ethanol industry's consumption of corn is projected to grow 58% to 3.4 billion bushels, or 27% of the U.S. crop, and continue to grow to 4.9 billion bushels of corn by 2010. These large increases in ethanol production increase the demand for, and prices of, farm land and commodities. In addition, we believe the growing economies of developing countries will continue to increase demand for agricultural products.

Construction Equipment Industry

Construction equipment is purchased primarily for commercial, residential and infrastructure construction, as well as for demolition, maintenance, mining, energy production and forestry operations. The market for construction equipment is larger than the market for agricultural equipment and is segmented across multiple categories including earth moving, lifting, light industrial, asphalt and paving, and concrete and aggregate equipment. IBISWorld data reports that total revenue for U.S. construction equipment dealers was \$72.4 billion in 2006 and is projected to grow to \$78.3 billion by 2012, as adjusted for inflation. We believe Caterpillar, Inc., Komatsu Ltd., Deere & Company, CNH and Ingersoll-Rand Co. Ltd. are the largest global manufacturers of construction equipment. According to IBISWorld data in 2007, these companies generated revenue from their construction operations of \$42.0 billion for Caterpillar, \$18.4 billion for Komatsu, \$5.0 billion for Deere & Company, and \$5.0 billion for CNH. As in the agricultural equipment market, distribution of construction equipment in the U.S. is executed primarily by manufacturer authorized dealers; however, manufacturers' dealership agreements in the construction industry typically assign exclusive distribution territories.

Construction machinery is generally divided into heavy and light subgroups. Heavy machinery includes large wheel loaders, large tracked excavators, crawler dozers, motor graders and articulated haul trucks. Light machinery includes backhoe landscape tractors, forklifts, compact excavators and skid steers. Heavy machinery is generally purchased by construction companies, municipalities, local governments, rental fleet owners, quarrying and mining companies, waste management companies and forestry-related organizations. Typically, light machinery is purchased by contractors, rental fleet owners, landscapers, logistics companies, farmers and recreational users. Although demand for construction equipment is affected by weather and seasonal factors, it is usually less susceptible to seasonal changes than the agricultural equipment industry.

CNH and industry reports show demand for construction equipment in our markets is driven by several factors, one of which is public infrastructure spending, including roads and highways, sewer and water, as well as by public and private expenditures for the energy and mining industries. Data prepared by the U.S. Department of Transportation shows that Federal Highway Administration allocations to public infrastructure spending in the states in which we do business Iowa, Minnesota, North Dakota and South Dakota will increase from \$1.3 billion, or 3.9% of federal funding, in 2005 to \$1.6 billion, or 4.3% of federal funding, in 2009, as adjusted for inflation. Our business is also influenced by public and private expenditures for the energy and mining industries in the areas in which we operate. Demand for fossil fuels, as well as metals and other commodities, has grown considerably in recent years. We expect to benefit from the need for equipment to establish the infrastructure necessary to extract these natural resources, particularly in North Dakota, as consumer and wholesale consumption accelerates.

Titan Operating Model

We believe the Titan Operating Model is a key element to our continued success. Through the Titan Operating Model, we empower leadership and share best practices at the store level while realizing efficiencies at the corporate level. We believe exceptional customer service is most efficiently delivered through accountable store employees who are supported by centralized administrative, finance and marketing functions. By managing our business as a network of independent stores supported by a

centralized, shared resources group, we ensure coordination of the entire enterprise while promoting local business relationships on a store-by-store basis.

Strong Stores

Each of our stores is run by a store manager who is reviewed and compensated based on the store's achievement of revenue, profitability, market share and balance sheet objectives. Also, each store is typically staffed by a parts manager, a service manager and field marketers, all of whom report directly to the store manager. Under our operating model, decision-making for customer-related issues is decentralized, with each store manager responsible for matters such as the type of equipment to stock, equipment pricing, customer credit approvals, staffing levels and customer satisfaction. This operating model enables each trained and motivated store manager to concentrate on customers' equipment, parts and service needs, while our shared resources group manages the administrative functions of the store. We believe customers in our industry view store managers and sales and service personnel as important partners in operating their businesses. Therefore, we believe developing and supporting strong store managers enables us to grow same-store sales through fostering new relationships and further developing existing relationships with our customers. In addition, we believe other regional operators that choose to centralize customer-related decisionmaking at the corporate level risk undermining the partnership many customers seek to build with their dealer.

Shared Resources

Our shared resources group provides a range of services to support our stores, including warranty and service administration, information technology support, administration, marketing campaigns, human resources management, finance and insurance, central purchasing, accounting, data administration and cash management. We believe these functions can be run more efficiently when combined and provide more sophisticated tools to our store managers than an independent dealership could support alone. We maintain accountability on a daily basis through our management reporting systems, which provide data on key operational and financial metrics, as well as monthly reviews of financial performance. We believe the services provided by our shared resources group enables our stores to achieve a higher level of customer service by freeing them from certain general and administrative functions and a more competitive market presence at a lower cost than would be feasible if our stores operated independently. Furthermore, as we acquire new stores, we believe the shared services required to support these stores will grow at a lower rate than our overall growth in store count.

Management Development and Succession Planning

Our executives work closely with our store managers and mid-level corporate managers to ensure the managers benefit from our executives' industry knowledge and execute operational excellence in line with our management philosophy. We also conduct formal store manager meetings every month to assess operational and financial objectives, develop near-term strategies and share best practices across the organization. We believe the relationships between our executives, our store managers and mid-level corporate managers will sustain our financial success through continued implementation of our effective operating model, by providing a strong pool of capable successors to our current team of executives and store managers. Further, we have deliberately structured our store personnel with entrepreneurial individuals trained, including through our programs, to move up the management ladder. In addition, we sponsor a program with Minnesota State Technical College that offers scholarships to students who will ultimately work for us in various capacities empowered with the basic knowledge and tools to succeed. This program was the first of its kind among CNH dealers and is now being replicated elsewhere in the CNH network.

Business Strengths

In addition to the Titan Operating Model, we believe the following attributes of our business model and market position are important factors in our ability to compete effectively and achieve our long-term financial objectives:

Leading North American Equipment Provider with Significant Scale

According to CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. We believe our size and large, contiguous geographic market provide us with several competitive advantages including:

our ability to efficiently manage inventory by empowering each individual store with inventory management responsibility and access to our centralized inventory management system, thus allowing inventory exchanges among the stores, which permits us to maintain only the inventory deemed needed by each store while providing significant breadth of parts and equipment to our customers;

our ability to use expanded sales channels, including used equipment listings and periodic auctions hosted on our website, which enables us to offer our customers alternative purchasing options; and

our ability to sell inventory to customers in a large geographic area covering North Dakota, South Dakota, Iowa and Minnesota, which enables us to capitalize on crop diversification and disparate weather throughout this area.

Customer Focus at the Local Level

As part of the Titan Operating Model, we centralize general and administrative functions and finance resources. This strategy enables our store employees to focus exclusively on customers and eliminates redundant operating expenses. We also centralize our marketing resources to offer our stores and field marketers professional marketing support that includes targeted direct mailings, advertising with targeted local media outlets, participation in and sponsorship of trade shows and industry events, our Titan Trader monthly magazine, and our hosting of open houses, service clinics, equipment demonstrations, product showcases and customer appreciation outings. We believe this operating structure, which focuses on serving our customers on a local level, will allow us to increase market share.

Superior Customer Service to Attract and Retain Customers

We believe our ability to respond quickly to our customers' demands is a key to profitable growth. Our executives are committed to maintaining a customer-focused culture. We spend significant time and resources training our employees to effectively service our customers in each of our local markets, which we believe will increase our revenue. Our training program involves active participation in all manufacturer-sponsored training programs and the use of industry experts as consultants for customized training programs and a training team to assist in the integration of newly-acquired operations. We also partner with a local technical college to sponsor students who we plan to ultimately employ. In particular, the following capabilities enable us to better service our customers:

our ability to staff a large number of highly-trained service technicians across our network of stores, which makes it possible to schedule repair services on short notice without affecting our technician utilization rates;

our ability to staff and leverage product and application specialists across our network of stores, which makes it possible to offer valuable pre-sale and aftermarket services, including equipment training, best practices education and precision farming technology support; and

our ability to innovate and lead our industry through initiatives such as Rural Tower Network, our joint venture with certain local Caterpillar and John Deere dealerships to deploy a GPS guidance system in support of precision farming in our core geographic market, which provides our customers with the latest advances in technology and operating practices.

Unique Entrepreneurial Culture to Attract and Retain Superior Employees

We created a unique entrepreneurial culture that empowers our employees to make decisions and act within the parameters of a proven operating process and system. We believe this culture and our size gives us a competitive advantage in attracting and retaining the best employees in our industry. We developed an operating system and process that provides our employees with defined objectives and frequent feedback of results within an entrepreneurial environment that allows them to work independently yet consistently throughout our company. Through this operating system and process we have established defined financial metrics on a balanced scorecard, which is used monthly with each store manager to assess performance. Each store manager is empowered to operate the individual store as appropriate within the guidelines set by the operating system and process. This balanced management philosophy enables our employees to understand clearly how they succeed in our organization and how to interact with customers who expect a level of autonomy from our employees. Our compensation system focuses on rewarding our employees for high performance, thus enabling us to retain most of those employees who perform at or above expectations. This system also enables us to attract talented individuals outside of our industry and train them to perform at a high level within a relatively short period of time.

Diverse and Stable Customer Base to Avoid Market Volatility

We believe our large and diverse customer base limits our exposure to risks associated with customer concentration and fluctuations in local market conditions. We have long and stable relationships with many of our customers. During fiscal 2008, we conducted business with over 28,000 customers and no customer accounted for more than 1.6% of our total revenue and our top ten customers combined represented approximately 6.5% of our total revenue. In addition, we believe current economic conditions for our customer base are historically strong. For example, U.S. annual net farm income since 2000 has averaged \$61.1 billion and the USDA projects an annual average of \$91.2 billion for the next 10 years. This compares to average U.S. annual net farm income during the 1990s of approximately \$48 billion. In addition, USDA reports indicate that farm balance sheets are strong, with the average debt-to-asset ratio for U.S. farmers in 2007 equal to 9.9%, the lowest level since the late 1950s. Our construction customers have multiple needs requiring equipment spending, including commercial construction, residential construction, local road, state and federal highway construction, commercial and government facilities maintenance and mining.

Proven Information Technology Systems

Our management reporting systems provide the data and reports that facilitate our ability to make informed decisions. We use these systems to actively manage our business and enable each store to access the available inventory of our other stores before ordering additional parts or equipment from our suppliers. As a result, we minimize our investment in inventory while promptly satisfying our customers' parts and equipment needs. Our customer relationship management system provides sales and customer information and other organizational tools to assist our field marketers, parts managers and service managers. In addition, our management reporting systems facilitate training and foster development of management personnel.

Experienced Management Team to Implement our Growth Strategy

Our executive team is led by David Meyer, our Chairman and Chief Executive Officer, and Peter Christianson, our President and Chief Financial Officer, who have approximately 33 and 29 years, respectively, of industry experience. Our store managers and field marketers also have extensive knowledge and experience in our industry. In addition, we compensate, develop and review our store managers based on an approach that aligns their incentives with the goals and objectives of our company, including achievement of revenue, profitability, market share and balance sheet objectives. We believe the strength of our management team will help our success in the marketplace.

Growth Strategy

We believe our business strengths will enable us to grow our business as we continue to pursue the following growth strategies:

Increase Market Share and Same-Store Sales

We focus on increasing our share of the equipment sold in our markets because our market share impacts current period revenue and compounds our revenue over the life of the equipment sold through recurring parts and service business. We seek to generate same-store growth and increase market share through:

employing significant marketing and advertising programs, including targeted direct mailings, advertising with targeted local media outlets, participation in and sponsorship of trade shows and industry events, our Titan Trader monthly magazine, and by hosting open houses, service clinics, equipment demonstrations, product showcases and customer appreciation outings;

supporting and providing customers with training for evolving technologies, such as precision farming, that are difficult for single-store operators to support;

maintaining state-of-the-art service facilities, mobile service trucks and trained service technicians to maximize our customers' equipment uptime through preventative maintenance programs and seasonal 24/7 service support; and

utilizing our inventory system to maximize parts and equipment availability for our customers.

Make Selective Acquisitions

The agricultural and construction equipment industries are fragmented and consist of many relatively small, independent businesses servicing discrete local markets. We believe a favorable climate for dealership consolidation exists due to several factors, including the competitiveness of our industry, growing dealer capitalization requirements and lack of succession alternatives. We intend to evaluate and pursue acquisitions with the objectives of entering new markets, consolidating distribution within our established network and strengthening our competitive position.

We have a track record of completing and integrating acquisitions and have successfully used acquisitions to enter new markets, as demonstrated by the expansion of our agricultural business from the Red River valley region into the western portion of the corn belt and our entry into and expansion of our construction equipment business in four states where we also sell agriculture equipment. We look to add stores through acquisitions that offer attractive growth opportunities, high demand for the equipment we sell and services we offer, management strength, and contiguity with our existing geography. We also look to add construction stores in local markets in which we sell agriculture equipment but do not have construction dealership agreements with CNH. These factors have guided us to successful acquisition candidates. We believe our track record of successful acquisitions and expansion increases the probability that our future expansion will be profitable.

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We believe that we are effectively able to identify attractive acquisition candidates due to our leadership position in the industry, our track record of completing and integrating acquisitions, and our contacts in and knowledge of our industry and geographic region. We regularly assess the acquisition landscape, evaluating potential acquisition candidates in terms of their availability and desirability to our long-term growth strategy. In addition, we believe acquisition economics in our industry have been and will continue to be conducive to executing our long-term growth strategy. Typically, we acquire only the fixed assets, working capital and selected inventory we believe are necessary to run an efficient store according to the Titan Operating Model and assume only the liabilities related to financing the inventory and working capital acquired. We, therefore, calculate our net purchase price of an acquisition as the value paid for the assets acquired less the amount of any liabilities assumed. Upon completion of an acquisition we seek to re-finance the inventory acquired according to the parts and floor plan financing parameters of the Titan Operating Model. In addition to the purchase price, we track the adjusted net purchase price of our acquisitions by subtracting any incremental parts inventory or floorplan financing incurred through re-financing the inventory according to the Titan Operating Model.

The aggregate net purchase price and adjusted net purchase price of the acquisitions we have completed since January 1, 2003 equals \$37.3 million and \$23.8 million, respectively. We estimate that the aggregate trailing twelve-month revenue and income before taxes at the time of acquisition for the acquisitions completed to date equals \$238.6 million and \$4.7 million, respectively. For the acquisitions that have at least one year of operating results under our management, the aggregate purchase price and implied net purchase price equals \$19.8 million and \$11.5 million, respectively. We estimate that the aggregate trailing twelve-month revenue and income before taxes at the time of acquisition for these locations was approximately \$134.0 million and \$2.1 million, respectively. The aggregate trailing twelve-month revenue and income before taxes as of January 31, 2008 for these same dealerships was approximately \$219.6 million and \$6.0 million, respectively. We intend to pursue acquisitions in the future that reflect economics similar to the aggregate economics summarized above. We believe our management team's experience in evaluating potential acquisition candidates helps them determine whether a particular dealership can be successfully integrated into our existing operations and enables them to structure mutually beneficial purchase terms.

The consent of CNH is required to acquire any CNH dealership, and the consent of Bremer is required for the acquisition of any dealership.

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The following table summarizes our acquisition of 17 dealers, totaling 34 stores, since January 1, 2003:

Acquired Dealer	Location of Stores
Titan Machinery, LLC <i>January 2003</i>	Watertown, South Dakota Wahpeton, North Dakota Casselton, North Dakota Fargo, North Dakota
Krider Equipment Co., Inc. <i>January 2003</i>	Fargo, North Dakota Bismarck, North Dakota
Fargo Tractor & Equipment, Inc. <i>January 2003</i>	West Fargo, North Dakota
Consolidated Ag Service, Inc. <i>February 2004</i>	Graceville, Minnesota Marshall, Minnesota Pipestone, Minnesota
Smith International, Inc. <i>March 2005</i>	Waverly, Iowa
H.C. Clark Implement Co., Inc. <i>May 2005</i>	Aberdeen, South Dakota
Vern Anderson, Inc. <i>November 2005</i>	Anthon, Iowa Cherokee, Iowa Kingsley, Iowa Le Mars, Iowa
Walterman Implement, Inc. <i>November 2005</i>	Dike, Iowa
Farm Power, Inc. of Minnesota and related entities <i>March 2006</i>	Elbow Lake, Minnesota Fergus Falls, Minnesota
Piorier Equipment Company, Inc. and related entities <i>June 2006</i>	Sioux City, Iowa Marshall, Minnesota Rapid City, South Dakota Sioux Falls, South Dakota
Richland County Implement, Inc. <i>February 2007</i>	Wahpeton, North Dakota
Aberdeen Equipment Co., Huron Equipment Co. and Redfield Equipment Co. <i>April 2007</i>	Aberdeen, South Dakota Huron, South Dakota Redfield, South Dakota
Red Power International, Inc. <i>August 2007</i>	Ada, Minnesota Crookston, Minnesota
Twin City Implement, Inc. <i>November 2007</i>	Mandan, North Dakota
Reiten & Young International, Inc. <i>December 2007</i>	Grand Forks, North Dakota
Avoca Operations, Inc. and Greenfield Operations, Inc.	Avoca, Iowa

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Acquired Dealer	Location of Stores
<i>January 2008</i>	Greenfield, Iowa
Ceres Equipment Inc. <i>February 2008</i>	Roseau, Minnesota

Integrate New Dealers into the Titan Operating Model

We have developed the Titan Operating Model to optimize the performance and profitability of each of our stores. Upon consummation of each acquisition, we integrate acquired stores into our operations by implementing the Titan Operating Model to enhance each acquired store's performance within its target market. We generally complete integration of a store in six to 18 months, although it may take several years before acquired stores fully realize the benefits of the Titan Operating Model. We believe the Titan Operating Model provides us with multiple points of customer contact, creates cross-selling opportunities, fosters strong customer relationships and supports a culture of individual accountability that increases our revenue and provides a strong platform for future growth.

Suppliers

CNH Case IH Agriculture, Case Construction, New Holland Agriculture and New Holland Construction

We have a longstanding relationship with CNH and, according to CNH, are the world's largest retail dealer of Case IH Agriculture equipment. We have been an authorized dealer of Case agricultural equipment since the inception of our company in 1980 and added the other CNH brands as Case grew, acquired other brands and merged with New Holland in 1999 to form CNH. CNH supplied approximately 77.9% of the new equipment we sold in fiscal 2008 through CNH America LLC, CNH's U.S. manufacturing entity.

CNH is a global leader in the agricultural and construction equipment industries based on the number of units sold. In 2007, CNH had \$16.0 billion in worldwide revenue, with agricultural equipment accounting for approximately 62% and construction equipment accounting for approximately 34% of CNH's total revenue. In addition, CNH provides financing and insurance products and services to its end-user customers and authorized dealers through its CNH Capital business unit. CNH is a publicly-traded company and a majority-owned subsidiary of Fiat S.p.A.

CNH is the world's second largest manufacturer of agricultural equipment. CNH owns and operates the Case IH Agriculture and New Holland Agriculture brands. Case IH Agriculture, recognized by the red color of its equipment, possesses over 160 years of farm equipment heritage. New Holland Agriculture, recognized by the blue color of its tractors and the yellow color of its harvesting and hay equipment, has over 100 years of farm equipment industry experience. CNH's agricultural equipment dealers are assigned authorized store locations but do not have exclusive territories.

CNH is the world's fifth largest manufacturer of construction equipment in terms of market share, owning and operating the Case Construction, New Holland Construction and Kobelco brands. CNH's construction equipment dealers are assigned a specific geographic area of responsibility, which typically include an entire state, within which they have the right to sell new Case Construction, New Holland Construction and/or Kobelco equipment.

We have entered into separate dealership agreements with certain CNH entities to sell the Case IH Agriculture, New Holland Agriculture, Case Construction and New Holland Construction brands. These dealer agreements authorize us to sell CNH equipment and parts and entitle us to use CNH trademarks and trade names, with certain restrictions. The CNH entities have the right to terminate their dealer agreements with us immediately in certain circumstances, including if a person acquires 20% or more of our common stock without CNH's consent, and, in some cases, for any reason 90 days following written notice. The dealership agreements and industry practices generally provide that payment on equipment and parts purchased from CNH entities is due within 30 days and is typically subject to floor plan financing as discussed below. With respect to sales of equipment, payments from customers, which are typically financed by a third party, are due upon sale. Payments from customers for parts and services are due within 30 days. CNH makes available to us any

floorplans, parts return programs, sales or incentive programs or similar plans or programs it offers to other dealers, and provides us with promotional items and marketing materials.

Based upon information provided to us by CNH, we are the world's largest retail dealer of Case IH Agriculture equipment and a major retail dealer of New Holland Agriculture, Case Construction and New Holland Construction equipment in the U.S. Thus, our relationship with CNH entities is more than a typical supply relationship; it is strategic for both our company and CNH. In that regard, it is in our mutual interests to maintain the strong longstanding relationship we share. If, however, that relationship were to significantly weaken or terminate, we believe our experience, reputation and industry knowledge would enable us to identify reasonable alternatives.

Other Suppliers

In addition to products supplied by CNH, we sell a variety of new equipment, parts and attachments from other manufacturers. These products tend to address speciD9D9 ;padding:0pt;">

77

\$

28

\$

37

\$

64

Less net income attributable to noncontrolling interests

(10)

(5)

(1)

—

(1)

Net income attributable to Primoris

\$

78

\$

72

\$

27

\$

37

\$

63

Dividends per common share

\$

0.240

\$

0.225

\$

0.220

\$

0.205

\$

0.150

Earnings per share attributable to Primoris:

Basic

\$

1.51

\$

1.41

\$

0.52

\$

0.71

\$

1.22

Diluted

\$

1.50

\$

1.40

\$

0.51

\$

0.71

\$

1.22

Weighted average common shares outstanding:

Basic

51.4

51.5

51.8

51.6

51.6

Diluted

51.7

51.7

52.0

51.8

51.7

	As of December 31,				
	2018	2017	2016	2015	2014
Balance Sheet Data:					
Cash and cash equivalents	\$ 151	\$ 170	\$ 136	\$ 161	\$ 139
Short term investments	—	—	—	—	31
Accounts receivable, net	373	292	388	321	337
Total assets	1,594	1,256	1,171	1,132	1,111
Total current liabilities	622	455	450	416	419
Long-term debt, net of current portion	306	193	203	220	204
Stockholders' equity	607	562	499	483	454

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ITEM 7.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes to those statements included in Item 8 in this Annual Report on Form 10-K. This discussion includes forward-looking statements that are based on current expectations and are subject to uncertainties and unknown or changed circumstances. For a further discussion, please see “Forward-Looking Statements” at the beginning of this Annual Report on Form 10-K. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those risks inherent with our business as discussed in “Item 1A Risk Factors”.

The following discussion starts with an overview of our business and a discussion of trends, including seasonality, that affect our industry. That is followed by an overview of the critical accounting policies and estimates that we use to prepare our financial statements. Next we discuss our results of operations and liquidity and capital resources, including our off-balance sheet arrangements and contractual obligations. We conclude with a discussion of our outlook and backlog.

Introduction

Primoris is a holding company of various subsidiaries, which form one of the larger publicly traded specialty contractors and infrastructure companies in the United States. Serving diverse end-markets, we provide a wide range of construction, fabrication, maintenance, replacement, and engineering services to major public and private utilities, petrochemical companies, energy companies, municipalities, state departments of transportation and other customers. We install, replace, repair and rehabilitate natural gas, refined product, water and wastewater pipeline systems; large diameter gas and liquid pipeline facilities; electric utility systems; and heavy civil projects, earthwork and site development. We also construct mechanical facilities and other structures, including power plants, petrochemical facilities, refineries, water and wastewater treatment facilities and parking structures. Finally, we provide specialized process and product engineering services.

We have longstanding customer relationships with major utility, refining, petrochemical, power and engineering companies. We have completed major underground and industrial projects for a number of large natural gas transmission and petrochemical companies in the United States, major electrical and gas projects for a number of large utility companies in the United States, as well as significant projects for our engineering customers. We enter into a large number of contracts each year, and the projects can vary in length from several days to as long as 60 months, or longer for completion on larger projects. Although we have not been dependent upon any one customer in any year, a small number of customers tend to constitute a substantial portion of our total revenue in any given year.

We generate revenue under a range of contracting options, including fixed-price, unit-price, time and material, and cost reimbursable plus fee contracts. A substantial portion of our revenue is derived from contracts that are fixed-price or unit-price and is recognized over time as work is completed because of the continuous transfer of control to the customer. For time and material and cost reimbursable plus fee contracts, revenue is recognized primarily on an input basis, based on contract costs incurred as defined within the respective contracts.

Our reportable segments consist of the Power, Industrial, and Engineering (“Power”) segment, the Pipeline and Underground (“Pipeline”) segment, the Utilities and Distribution (“Utilities”) segment, the Transmission and Distribution (“Transmission”) segment, which is a new reportable segment created in 2018 in connection with the acquisition of Willbros Group, Inc. (“Willbros”), and the Civil segment. See Note 13 – “Reportable Segments” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for a brief description of the reportable segments and their operations.

The classification of revenue and gross profit for segment reporting purposes can at times require judgment on the part of management. Our segments may perform services across industries or perform joint services for customers in

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multiple industries. To determine reportable segment gross profit, certain allocations, including allocations of shared and indirect costs, such as facility costs, equipment costs and indirect operating expenses were made.

On June 1, 2018, we acquired Willbros for approximately \$110.6 million, net of cash and restricted cash acquired. Willbros is a specialty energy infrastructure contractor serving the oil and gas and power industries through its utility transmission and distribution, oil and gas, and Canadian operations, which principally executes industrial and power projects. The utility transmission and distribution operations formed the Transmission segment, the oil and gas operations are included in the Pipeline segment, and the Canadian operations are included in the Power segment. Willbros expands our services into electric utility-focused offerings and increases our geographic presence in the United States and Canada.

On May 26, 2017, we acquired the net assets of Florida Gas Contractors (“FGC”) for \$37.7 million; on May 30, 2017, we acquired certain engineering assets for approximately \$2.3 million; and on June 16, 2017, we acquired the net assets of Coastal Field Services (“Coastal”) for \$27.5 million. FGC operations are included in the Utilities segment, the engineering assets are included in the operations of the Power segment, and Coastal operations are included in the Pipeline segment.

In August 2017, we announced that we are investing approximately \$22.0 million to build, own, and operate a portfolio of solar projects in a California School District acquired from the developers, Spear Point Energy, LLC, and PFMG Solar, LLC. This investment amount includes the cost of Engineering, Procurement, and Construction (“EPC”) work on the projects, which is projected to be completed in the first quarter of 2019. The solar projects are expected to generate a 25-year recurring revenue stream from the District's signed power purchase agreement. As an investment in a renewable energy project, the solar assets should provide us with investment tax credits valued at over \$5.0 million. Our investment for the solar projects was approximately \$23.2 million as of December 31, 2018.

On January 29, 2016, we acquired the net assets of Mueller Concrete Construction Company (“Mueller”) for \$4.1 million, and on November 18, 2016, we acquired the net assets of Northern Energy & Power (“Northern”) for \$6.9 million. On June 24, 2016, we purchased property, plant and equipment from Pipe Jacking Unlimited, Inc. (“Pipe Jacking”), consisting of specialty directional drilling and tunneling equipment for \$13.4 million. We determined this purchase did not meet the definition of a business as defined under Accounting Standards Codification (“ASC”) 805, “Business Combinations”. Mueller operations are included in the Utilities segment, Northern operations are included in the Power segment, and Pipe Jacking operations are included in the Pipeline segment.

We own a 50% interest in two separate joint ventures, both formed in 2015. The Carlsbad Power Constructors joint venture (“Carlsbad”) is engineering and constructing a gas-fired power generation facility, and the “ARB Inc. & B&M Engineering Co.” joint venture (“Wilmington”) is also engineering and constructing a gas-fired power generation facility. Both projects are located in Southern California. The joint venture operations are included as part of the Power segment. As a result of determining that we are the primary beneficiary of the two variable interest entities (“VIEs”), the results of the Carlsbad and Wilmington joint ventures are consolidated in our financial statements. The

Wilmington project was substantially complete as of December 31, 2017, and the Carlsbad project was substantially complete as of December 31, 2018.

Material trends and uncertainties

We generate our revenue from both large and small construction and engineering projects. The award of these contracts is dependent on many factors, most of which are not within our control. We depend in part on spending by companies in the energy and oil and gas industries, the gas and electric utility industry, as well as municipal water and wastewater customers. Over the past several years, each segment has benefited from demand for more efficient and more environmentally friendly energy and power facilities, local highway and bridge needs and from the activity level in the oil and gas industry. However, periodically, each of these industries and government agencies is adversely affected by macroeconomic conditions. Economic factors outside of our control may affect the amount and size of contracts we are awarded in any particular period.

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We closely monitor our customers to assess the effect that changes in economic, market and regulatory conditions may have on them. We have experienced reduced spending by some of our customers over the last several years, which we attribute to negative economic and market conditions, and we anticipate that these negative conditions may continue to affect demand for our services in the near-term.

Fluctuations in market prices of oil, gas and other fuel sources have affected demand for our services. The significant volatility in the price of oil, gas and liquid natural gas that occurred in the past few years could create uncertainty with respect to demand for our oil and gas pipeline services both in the near-term and for future projects. We have started to see increased activity in our upstream operations, such as the construction of gathering lines within the oil shale formations and believe that over time, the need for pipeline infrastructure for mid-stream and gas utility companies will result in a continuing need for our services. However, a prolonged period of depressed oil prices could delay midstream pipeline opportunities.

We are also monitoring the impact of recently imposed domestic and foreign trade tariffs, which could raise the price of raw materials, such as steel, utilized on construction projects or delay the start of certain projects. The continuing changes in the regulatory environment also affect the demand for our services, either by increasing our work or delaying projects. For example, environmental laws and regulation can provide challenges to major pipeline projects, resulting in delays that impact the timing of revenue recognition. In addition, the regulatory environment in California may result in delays for the construction of gas-fired power plants while regulators continue to search for significant renewable resources, but renewable resources may also create a demand for our construction services such as the need for storage of renewable generated electricity.

On January 29, 2019, one of our utility customers filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of December 31, 2018, the utility customer comprised approximately 1.9% of our total accounts receivable. In addition to accounts receivable, there is approximately \$36.0 million in unbilled revenue, net as of December 31, 2018. For the year ended December 31, 2018, the customer accounted for approximately 8.5% of our total revenue. Our exposure to diverse end markets limits the potential for any one client or job to have a material adverse impact on our operations. Although we do not currently expect a material impact to our financial performance as a result of this customer's recent announcement, the failure to recover amounts due to us from this customer or any customer who enters bankruptcy could have a negative impact on our results of operations and cash flows, and the loss of a customer due to bankruptcy could have a negative impact on our financial condition, results of operations and cash flows. We do not believe a reserve for the accounts receivable and unbilled revenue is appropriate at this time. However, we will closely monitor our current and future potential exposure.

Seasonality, cyclical and variability

Our results of operations are subject to quarterly variations. Some of the variation is the result of weather, particularly rain, ice and snow, which can impact our ability to perform construction services. While the majority of our work is in the southern half of the United States, these seasonal impacts can affect revenue and profitability in all of our

businesses since utilities defer routine replacement and repair during their period of peak demand. Any quarter can be affected either negatively or positively by atypical weather patterns in any part of the country. In addition, demand for new projects tends to be lower during the early part of the calendar year due to clients' internal budget cycles. As a result, we usually experience higher revenue and earnings in the third and fourth quarters of the year as compared to the first two quarters.

We are also dependent on large construction projects which tend not to be seasonal, but can fluctuate from year to year based on general economic conditions. Our business may be affected by declines or delays in new projects or by client project schedules. Because of the cyclical nature of our business, the financial results for any period may fluctuate from prior periods, and our financial condition and operating results may vary from quarter to quarter. Results from one quarter may not be indicative of financial condition or operating results for any other quarter or for an entire year.

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Critical Accounting Policies and Estimates

General—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and also affect the amounts of revenue and expenses reported for each period. These estimates and assumptions must be made because certain information that is used in the preparation of our financial statements cannot be calculated with a high degree of precision from data available, is dependent on future events, or is not capable of being readily calculated based on generally accepted methodologies. Often, estimates are particularly difficult to determine, and we must exercise significant judgment. Estimates may be used in our accounting for revenue recognized over time, the allowance for doubtful accounts, useful lives of property and equipment, fair value assumptions in analyzing goodwill and long-lived asset impairments, self-insured claims liabilities and deferred income taxes. Actual results could differ from those that result from using the estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be based on assumptions about matters that are highly uncertain at the time the estimate is made, and different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements.

The following accounting policies are based on, among other things, judgments and assumptions made by management that include inherent risks and uncertainties. Management's estimates are based on the relevant information available at the end of each period. We periodically review these accounting policies with the Audit Committee of the Board of Directors.

Revenue recognition— We generate revenue under a range of contracting types, including fixed-price, unit-price, time and material, and cost reimbursable plus fee contracts. A substantial portion of our revenue is derived from contracts that are fixed-price or unit-price and is recognized over time as work is completed because of the continuous transfer of control to the customer (typically using an input measure such as costs incurred to date relative to total estimated costs at completion to measure progress). For time and material and cost reimbursable plus fee contracts, revenue is recognized primarily on an input basis, based on contract costs incurred as defined within the respective contracts. Costs to obtain contracts are generally not significant and are expensed in the period incurred.

We evaluate whether two or more contracts should be combined and accounted for as one single performance obligation and whether a single contract should be accounted for as more than one performance obligation. ASC 606, "Revenue from Contracts with Customers" defines a performance obligation as a contractual promise to transfer a distinct good or service to a customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our evaluation requires significant judgment and the decision to combine a group of contracts or separate a contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. The majority of our contracts

have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and, therefore, is not distinct. However, occasionally we have contracts with multiple performance obligations. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using the observable standalone selling price, if available, or alternatively our best estimate of the standalone selling price of each distinct performance obligation in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach for each performance obligation.

Accounting for long-term contracts involves the use of various techniques to estimate total transaction price and costs. For long-term contracts, transaction price, estimated cost at completion and total costs incurred to date are used to calculate revenue earned. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular contract. Total estimated costs, and thus contract revenue and income, can be impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project's completion, and thus the timing of revenue recognition. To the extent that original cost estimates are modified, estimated costs to complete increase, delivery schedules are delayed,

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or progress under a contract is otherwise impeded, cash flow, revenue recognition and profitability from a particular contract may be adversely affected.

The nature of our contracts give rise to several types of variable consideration, including contract modifications (change orders and claims), liquidated damages, volume discounts, performance bonuses, incentive fees, and other terms that can either increase or decrease the transaction price. We estimate variable consideration as the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent we believe we have an enforceable right and it is probable that a significant reversal of cumulative revenue recognized will not occur. Our estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us at this time.

Contract modifications result from changes in contract specifications or requirements. We consider unapproved change orders to be contract modifications for which customers have not agreed to both scope and price. We consider claims to be contract modifications for which we seek, or will seek, to collect from customers, or others, for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers. Claims can also be caused by non-customer-caused changes, such as rain or other weather delays. Costs associated with contract modifications are included in the estimated costs to complete the contracts and are treated as project costs when incurred. In most instances, contract modifications are for goods or services that are not distinct, and, therefore, are accounted for as part of the existing contract. The effect of a contract modification on the transaction price, and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis. In some cases, settlement of contract modifications may not occur until after completion of work under the contract.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the cumulative impact of the profit adjustment is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. If at any time the estimate of contract profitability indicates an anticipated loss on a contract, the projected loss is recognized in full, including any previously recognized profit, in the period it is identified and recognized as an “accrued loss provision” which is included in “Contract liabilities” on the Consolidated Balance Sheets. For contract revenue recognized over time, the accrued loss provision is adjusted so that the gross profit for the contract remains zero in future periods.

At December 31, 2018, we had approximately \$92.8 million of unapproved contract modifications included in the aggregate transaction prices. These unapproved contract modifications were in the process of being negotiated in the normal course of business. Approximately \$83.3 million of the unapproved contract modifications had been recognized as revenue on a cumulative catch-up basis through December 31, 2018.

In all forms of contracts, we estimate the collectability of contract amounts at the same time that we estimate project costs. If we anticipate that there may be issues associated with the collectability of the full amount calculated as the transaction price, we may reduce the amount recognized as revenue to reflect the uncertainty associated with realization of the eventual cash collection. For example, when a cost reimbursable project exceeds the client's expected budget amount, the client frequently requests an adjustment to the final amount. Similarly, some utility clients reserve the right to audit costs for significant periods after performance of the work.

The timing of when we bill our customers is generally dependent upon agreed-upon contractual terms, milestone billings based on the completion of certain phases of the work, or when services are provided. Sometimes, billing occurs subsequent to revenue recognition, resulting in unbilled revenue, which is a contract asset. However, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in deferred revenue, which is a contract liability.

The caption "Contract assets" in the Consolidated Balance Sheets represents the following:

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- unbilled revenue (formerly costs and estimated earnings in excess of billings), which arise when revenue has been recorded but the amount will not be billed until a later date;
- retainage amounts for the portion of the contract price earned by us for work performed, but held for payment by the customer as a form of security until we reach certain construction milestones; and
- contract materials for certain job specific materials not yet installed, which are valued using the specific identification method relating the cost incurred to a specific project.

The caption “Contract liabilities” in the Consolidated Balance Sheets represents deferred revenue (formerly billings in excess of costs and estimated earnings) on billings in excess of contract revenue recognized to date, and the accrued loss provision.

Business combinations—We use the fair value of the consideration paid and the fair value of the assets acquired and liabilities assumed to account for the purchase price of businesses we acquire. The determination of fair value requires estimates and judgments of future cash flow expectations for the assignment of the fair values to the identifiable tangible and intangible assets.

Identifiable Tangible Assets. Significant identifiable tangible assets acquired would include accounts receivable, contract assets, inventory and fixed assets (generally consisting of construction equipment). We determine the fair value of these assets as of the acquisition date. For current assets and current liabilities of an acquisition, we will evaluate whether the book value is equivalent to fair value due to their short term nature. We estimate the fair value of fixed assets using a market approach, based on comparable market values for similar equipment of similar condition and age.

Identifiable Intangible Assets. When necessary, we use the assistance of an independent third party valuation specialist to determine the fair value of the intangible assets acquired.

A liability for contingent consideration based on future earnings is estimated at its fair value at the date of acquisition, with subsequent changes in fair value recorded in earnings as a gain or loss. Fair value is estimated as of the acquisition date using estimated earnout payments based on management’s best estimate.

Accounting principles generally accepted in the United States provide a “measurement period” of up to one year in which to finalize all fair value estimates associated with the acquisition of a business. Most estimates are preliminary until the end of the measurement period. During the measurement period, adjustments to initial valuations and estimates that reflect newly discovered information that existed at the acquisition date are recorded. After the

measurement date, any adjustments would be recorded as a current period gain or loss.

Goodwill and Indefinite-Lived Intangible Assets—Goodwill and certain intangible assets acquired in a business combination and determined to have indefinite useful lives are not amortized but are assessed for impairment annually and more frequently if triggering events occur. In performing these assessments, management relies on various factors, including operating results, business plans, economic projections, anticipated future cash flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and judgment in applying them to the analysis of goodwill for impairment. Since judgment is involved in performing fair value measurements used in goodwill impairment analyses, there is risk that the carrying values of our goodwill may not be properly stated.

We account for goodwill, including evaluation of any goodwill impairment under ASC 350, “Intangibles — Goodwill and Other”, performed at the reporting unit level for those units with recorded goodwill as of October 1 of each year, unless there are indications requiring a more frequent impairment test.

Under ASC 350, we can assess qualitative factors to determine if a quantitative impairment test of intangible assets is necessary. For the majority of our reporting units, we perform a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying value, including goodwill. Factors used in our qualitative assessment include, but are not limited to,

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macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and Company and reporting unit specific events. For all other reporting units, we use the two-step impairment test outlined in ASC 350. First, we compare the fair value of a reporting unit with its carrying amount. Fair value for the goodwill impairment test is determined utilizing a discounted cash flow analysis based on our financial plan discounted using our weighted average cost of capital and market indicators of terminal year cash flows. Other valuation methods may be used to corroborate the discounted cash flow method. If the carrying amount of a reporting unit is in excess of its fair value, goodwill is considered potentially impaired and further tests are performed to measure the amount of impairment loss. In the second step of the goodwill impairment test, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the carrying amount of goodwill less its implied fair value. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination was determined. We allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities represents the implied fair value of goodwill.

During the third quarter of 2016, we made a decision to divest the Texas heavy civil business unit, a division of Primoris Heavy Civil within the Civil segment. We engaged a financial advisor to assist in the marketing and sale of the business unit, and planned to continue operating the business unit until completion of a sale. In April 2017, the Board of Directors determined that based on the information available, we would attain the best long-term value by withdrawing from the sales process and continuing to operate the business unit.

Under the provisions of ASC 350, the planned divestiture triggered an analysis of the goodwill amount of Primoris Heavy Civil. The analysis resulted in a pre-tax, non-cash goodwill impairment charge of approximately \$2.7 million in the third quarter of 2016.

There were no other impairments of goodwill for the years ended December 31, 2018, 2017 and 2016.

Disruptions to our business, such as end market conditions, protracted economic weakness, unexpected significant declines in operating results of reporting units and the divestiture of a significant component of a reporting unit, may result in our having to perform a goodwill impairment first step valuation analysis for some or all of our reporting units prior to the required annual assessment. These types of events and the resulting analysis could result in goodwill impairment charges in future periods.

Income taxes—We account for income taxes under the asset and liability method as set forth in ASC 740, “Income Taxes”, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial reporting bases and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. The effect of

changes in tax rates on net deferred tax assets or liabilities is recognized as an increase or decrease in net income in the period the tax change is enacted.

Deferred tax assets may be reduced by a valuation allowance if, in the judgment of management, it is more likely than not that all or a portion of a deferred tax asset will not be realized. In making such determination, we consider all available evidence, including recent financial operations, projected future taxable income, scheduled reversals of deferred tax liabilities, tax planning strategies, and the length of tax asset carryforward periods. The realization of deferred tax assets is primarily dependent upon our ability to generate sufficient future taxable earnings in certain jurisdictions. If we subsequently determine that some or all deferred tax assets that were previously offset by a valuation allowance are realizable, the value of the deferred tax assets would be increased by reducing the valuation allowance, thereby increasing income in the period when that determination is made.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained based on its technical merits in a tax examination, using the presumption that the tax authority has full knowledge of all relevant facts regarding the position. The amount recognized is the largest amount of tax benefit that is

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greater than 50% likely of being realized on ultimate settlement with the tax authority. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

Tax Cuts and Jobs Act—On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act made broad and complex changes to the U.S. tax code that affects our results, including but not limited to:

- Reduction of the U.S. federal corporate income tax rate from 35.0% to 21.0%;
- The allowance of bonus depreciation that provides for immediate deduction of qualified property placed in service after September 27, 2017;
- The repeal of the domestic production activities deduction;
- Further limitations on the deductibility of certain executive compensation;
- Disallowance of certain entertainment expense deductions;
- Limitations on the use of foreign tax credits to reduce the U.S. income tax liability;
- Limitations on interest expense deductibility;
- Elimination of the corporate alternative minimum tax.

While the Tax Act also contains complex changes to the tax code for companies operating internationally, we are not materially impacted by the international provisions of the Tax Act. As a result of the Tax Act, we remeasured our deferred tax assets and liabilities using the newly enacted tax rates and recorded a one-time net tax benefit of \$9.4 million in the year ended December 31, 2017.

Given the significant impact of the Tax Act, the SEC staff issued Staff Accounting Bulletin (“SAB”) 118 which provided guidance on accounting for uncertainties of the effects of the Tax Act. Specifically, SAB 118 allowed companies to record provisional estimates of the impact of the Tax Act during a one year “measurement period” from the December 22, 2017 enactment date, similar to that used when accounting for business combinations.

As of December 31, 2018, our accounting for the Tax Act is complete. The provision for income taxes for the year ended December 31, 2018 includes a \$1.1 million increase from the completion of our provisional accounting for the effects of the Tax Act under SAB 118. The increase is due to \$0.6 million of additional expense associated with foreign tax credits, net of associated valuation allowances, and \$0.5 million of additional expense related to the corporate tax rate change impact on return-to-provision adjustments, primarily for depreciation.

Litigation and contingencies—Litigation and contingencies are included in our consolidated financial statements based on our assessment of the expected outcome of litigation proceedings or the expected resolution of the contingency. We provide for costs related to contingencies when a loss from such claims is probable and the amount is reasonably estimable. In determining whether it is possible to provide an estimate of loss, or range of possible loss, we review and evaluate litigation and regulatory matters on a quarterly basis in light of potentially relevant factual and

legal developments. If we determine an unfavorable outcome is not probable or reasonably estimable, we do not accrue for a potential litigation loss. Management is unable to ascertain the ultimate outcome of other claims and legal proceedings; however, after review and consultation with counsel and taking into consideration relevant insurance coverage and related deductibles/self-insurance retention, management believes that it has meritorious defense to the claims and believes that the reasonably possible outcome of such claims will not, individually or in the aggregate, have a material adverse effect on our consolidated results of operations, financial condition or cash flows. See Note 12 — “Commitments and Contingencies” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for further information.

Recently Issued Accounting Pronouncements

See Note 2 — “Summary of Significant Accounting Policies - Recently Issued Accounting Pronouncements” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for a discussion of recently issued accounting pronouncements.

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Results of Operations

Consolidated Results

One event had a material impact on our results of operations in 2018 and two events had a material impact on our results of operations in 2016. In 2018, we settled a disputed receivable for one of the construction projects that we had identified as part of our “Receivable Collection Actions”, discussed below, which resulted in recognizing revenue of \$18.1 million and gross profit of \$17.4 million. In 2016, we received a \$38.0 million settlement for the other construction project that we had identified as part of our “Receivable Collection Actions”, which resulted in recognizing revenue of \$27.5 million and gross profit of \$26.7 million. Also in 2016, we recorded a charge of \$37.3 million primarily related to certain Belton, Texas area projects for the Texas Department of Transportation (“DOT”), as a result of project delays and productivity issues.

Revenue

2018 and 2017

Revenue for the year ended December 31, 2018 increased by \$559.5 million, or 23.5%, compared to 2017. The increase was primarily due to incremental revenue in 2018 from acquisitions (\$444.2 million combined), and organic growth in our Utilities, Power, and Pipeline segments, partially offset by lower revenue in our Civil segment.

2017 and 2016

Revenue for the year ended December 31, 2017 increased by \$383.0 million, or 19.2%, compared to 2016. All segments reported year over year organic growth, with the most significant growth coming from the Utilities and Power segments. Incremental revenue from acquisitions totaled \$53.6 million.

Gross Profit

2018 and 2017

For the year ended December 31, 2018, gross profit increased by \$47.3 million, or 17.0%, compared to 2017. The increase was primarily due to incremental gross profit in 2018 from acquisitions (\$48.5 million), and the settlement of one of the “Receivable Collection Actions” in 2018 (\$17.4 million), partially offset by lower gross profit in our Pipeline segment. Gross profit as a percentage of revenue decreased to 11.1% in 2018 from 11.7% in 2017 due primarily to favorable performance on pipeline projects in 2017, partially offset by the settlement of one of the “Receivable Collection Actions” in 2018.

2017 and 2016

For the year ended December 31, 2017, gross profit increased by \$77.1 million, or 38.3%, compared to 2016. All segments reported year over year improvement. Strong revenue growth and the favorable performance in the Pipeline segment drove significant improvement. Also benefiting 2017 were higher volumes for the Power segment and better performance from the Civil segment. The year over year increase was partially offset by \$26.7 million of gross profit recognized in 2016 from the settlement of one of the “Receivable Collection Actions”. Incremental gross profit from acquisitions totaled \$8.6 million. Gross profit as a percentage of revenue increased to 11.7% in 2017 from 10.1% in 2016 for the reasons noted above.

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Selling, general and administrative expenses

Selling, general and administrative expenses (“SG&A”) consist primarily of compensation and benefits to executive, management level and administrative employees, marketing and communications, professional fees, and office rent and utilities.

2018 and 2017

SG&A expenses were \$182.0 million for the year ended December 31, 2018, compared to \$170.4 million for the year ended December 31, 2017, an increase of \$11.6 million, or 6.8%. The primary reason for the increase was \$21.5 million of incremental expense from the businesses we acquired during 2018 and 2017. The overall increase was partially offset by a \$4.4 million reduction in compensation related expenses, including discretionary incentive compensation and a \$3.2 million decrease in legal fees. SG&A expense as a percentage of revenue for the year ended December 31, 2018 decreased to 6.2% compared to 7.2% for the year ended December 31, 2017 due to increased revenue.

2017 and 2016

SG&A expenses were \$170.4 million for the year ended December 31, 2017, compared to \$140.8 million for the year ended December 31, 2016, an increase of \$29.6 million. Approximately \$12.4 million of the increase in SG&A is related to businesses acquired in 2017 and a full year of expense in 2017 for the Northern acquisition compared to less than two months of expense in 2016. The remaining increase was primarily due to a \$12.6 million increase in compensation related expenses, including discretionary incentive compensation, and a \$1.3 million increase in legal costs. SG&A as a percentage of revenue for the year ended December 31, 2017 increased slightly to 7.2% compared to 7.0% for the year ended December 31, 2016 due to incremental expenses from the businesses we acquired in 2017 and 2016.

Merger and related costs

Merger and related costs were \$13.3 million for year ended December 31, 2018, compared to \$1.8 million for the year ended December 31, 2017. The increase is primarily related to higher costs associated with the acquisition of Willbros. Such costs primarily consisted of severance and retention bonus costs for certain employees of Willbros, professional fees paid to advisors, and exiting or impairing certain duplicate facilities.

Other income and expense

Non-operating income and expense items for the years ended December 31, 2018, 2017 and 2016 were as follows (in millions):

	2018	2017	2016
Investment income	\$ —	\$ 5.8	\$ —
Foreign exchange gain	0.7	0.2	0.2
Other income (expense), net	(0.8)	0.5	(0.3)
Interest income	1.7	0.6	0.1
Interest expense	(18.7)	(8.1)	(8.9)
Total other income (expense)	\$ (17.1)	\$ (1.0)	\$ (8.9)

Investment income for the year ended December 31, 2017 is related to a gain from a short-term investment in marketable equity securities. We purchased the securities in the third quarter of 2017 and sold the securities in the fourth quarter of 2017.

Foreign exchange gains in 2018, 2017, and 2016 are primarily related to currency exchange fluctuations associated with our Canadian engineering operation, which operates principally in United States dollars.

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Other expense for the year ended December 31, 2018 was \$0.8 million compared to other income of \$0.5 million for 2017. The \$1.3 million change was primarily due to remeasurement of the contingent consideration related to the FGC performance target contemplated in the purchase agreement. Under ASC 805, “Business Combinations”, we are required to estimate the fair value of contingent consideration based on facts and circumstances that existed as of the acquisition date and remeasure to fair value at each reporting date until the contingency is resolved. As a result of that remeasurement, we increased the contingent consideration liability by \$0.8 million in 2018.

Other income for 2017 was \$0.5 million compared to other expense of \$0.3 million for 2016. The \$0.8 million change was primarily due to remeasurement of the contingent consideration related to the FGC performance target contemplated in their purchase agreement, which resulted in a reduction to the contingent consideration liability of \$0.5 million in 2017.

Interest income is derived from interest earned on excess cash invested primarily in short term U.S. Treasury bills, backed by the federal government.

Interest expense increased in 2018 compared to the same periods in 2017 due to higher average debt balances and weighted average interest rates in 2018 and a \$2.8 million unrealized loss on the change in the fair value of our interest rate swap agreement in 2018. In addition, we recognized an additional \$2.3 million of interest in 2018 related to the early extinguishment of the Senior Notes (as defined below). Interest expense decreased in 2017 compared to 2016 primarily due to a lower average debt balance. The weighted average interest rate on total debt outstanding at December 31, 2018, 2017 and 2016 was 4.1%, 3.0% and 2.9%, respectively.

Provision for income taxes

Our provision for income taxes decreased \$2.7 million to \$25.8 million for 2018 compared to 2017. This decrease was primarily due to a lower U.S. federal statutory rate in 2018 resulting from the Tax Act and the benefit of investment tax credits claimed in 2018. The decrease was partially offset by an increase of \$1.1 million from the completion of our provisional accounting for the effects of the Tax Act under SAB 118 and higher pre-tax profit in 2018. The 2018 effective tax rate on income including noncontrolling interests was 22.7%. The 2018 effective tax rate on income attributable to Primoris (excluding noncontrolling interests) was 25.0%.

Our provision for income taxes increased \$7.3 million to \$28.4 million for 2017 compared to 2016. Increased pre-tax profit in 2017 of \$53.0 million drove an increase in income tax of \$23.4 million using the 2016 effective tax rate. This increase in income tax was offset by a \$9.4 million decrease in income tax from the remeasurement of our U.S. deferred tax liability and a \$6.7 million decrease due to a decrease in 2017 effective tax rates. The remeasurement benefit was a provisional estimate under SAB 118. The 2017 effective tax rate on income including noncontrolling interests was 27.0%. The 2017 effective tax rate on income attributable to Primoris (excluding noncontrolling

interests) was 28.2%.

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Segment Results

Power Segment

Revenue and gross profit for the Power segment for the years ending December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31, 2018		2017		2016	
	(Millions)	% of Segment Revenue	(Millions)	% of Segment Revenue	(Millions)	% of Segment Revenue
Power Segment						
Revenue	\$ 694.0		\$ 606.1		\$ 478.6	
Gross profit	\$ 109.8	15.8%	\$ 65.7	10.8%	\$ 49.8	10.4%

2018 and 2017

Revenue increased by \$87.9 million, or 14.5%, during 2018 compared to 2017. The growth is primarily due to refinery projects in Southern California (\$64.2 million), a West Texas solar electric facility project that started in 2018 (\$41.5 million), and a monoethylene glycol plant project in Texas that started in the third quarter of 2017 (\$38.6 million). The acquisition of Willbros increased revenue in 2018 (\$60.6 million), and we collected a disputed receivable in 2018 related to a major project completed in 2014, which resulted in recognizing revenue of approximately \$18.1 million. The overall increase was partially offset by the substantial completions of a large petrochemical plant project in Louisiana and our Wilmington joint venture power plant project in 2017 (\$132.1 million combined).

Gross profit increased by \$44.1 million, or 67.1%, during 2018 compared to 2017. The increase is primarily due to revenue growth and higher margins. In addition gross profit increased by \$17.4 million in 2018 from the collection of the disputed receivable. Gross profit as a percentage of revenue increased to 15.8% in 2018 compared to 10.8% in 2017 primarily due to a strong performance and favorable margins realized by our Carlsbad joint venture project, as well as the collection of the disputed receivable.

2017 and 2016

Revenue increased by \$127.5 million, or 26.6%, during 2017 compared to 2016. The growth is primarily due to progress on our joint venture power plant projects in Southern California (\$115.3 million), a power plant construction project in the Mid-Atlantic region that began late in the third quarter of 2016 (\$42.9 million) and a methane plant project in Texas that started in 2017. In addition, we benefited from acquisitions completed in November 2016 and May 2017 (\$20.3 million combined). The overall increase was partially offset by the substantial completion of a large petrochemical plant in Louisiana in the second quarter of 2017 (\$42.0 million) and the completion of two large parking structures in 2016.

Gross profit increased by \$15.9 million, or 31.9%, during 2017 compared to 2016. The increase is primarily attributable to the revenue growth and the impact of acquired operations (\$1.6 million). Gross profit as a percentage of revenue increased to 10.8% in 2017 compared to 10.4% in 2016 primarily as a result of an improved revenue mix.

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Pipeline Segment

Revenue and gross profit for the Pipeline segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,				2016	
	2018		2017		(Millions)	% of
	(Millions)	% of Segment Revenue	(Millions)	% of Segment Revenue	(Millions)	Segment Revenue
Pipeline Segment Revenue	\$ 590.9		\$ 465.6		\$ 401.9	
Gross profit	\$ 66.6	11.3%	\$ 92.1	19.8%	\$ 68.1	16.9%

2018 and 2017

Revenue increased by \$125.3 million, or 26.9%, during 2018 compared to 2017. The increase is primarily due to major pipeline projects in the Mid-Atlantic and in West Texas that began in 2018 (\$306.8 million combined), and incremental revenue from the Willbros and Coastal acquisitions (\$72.2 million combined). The overall increase was partially offset by the completion of two large pipeline jobs in Florida and a pipeline job in West Texas in 2017 (\$262.9 million combined).

Gross profit decreased by \$25.5 million, or 27.7%, during 2018 compared to 2017. The decrease is primarily attributable to our strong performance on the two pipeline jobs in Florida in 2017, which benefited from good weather conditions resulting in no weather delays and high productivity. The overall decrease was partially offset by incremental gross profit from the Willbros and Coastal acquisitions.

Gross profit as a percentage of revenue decreased to 11.3% in 2018 compared to 19.8% in 2017. The decrease is due to the good weather conditions in 2017 noted above, which is not common and not expected to occur again in the future. Gross profit as a percentage of revenue experienced in 2018 is normal for the pipeline segment.

2017 and 2016

Revenue increased by \$63.7 million, or 15.8%, during 2017 compared to 2016. The increase is primarily due to two large pipeline jobs in Florida, which began in the third quarter of 2016 (\$31.6 million) and activity on a pipeline

project in Pennsylvania that began in 2017 (\$52.0 million). In addition, impact of the acquired Coastal operations (\$17.9 million) also benefited 2017. The overall increase was partially offset by a reduction in pipeline maintenance work (\$31.1 million) and the collection of a disputed receivable in 2016 related to a major pipeline project completed in 2014, which resulted in recognizing revenue of approximately \$27.5 million.

Gross profit increased by \$24.0 million, or 35.2%, during 2017 compared to 2016. The increase is attributable to the combination of revenue growth and our strong performance on the two pipeline jobs in Florida, where we experienced good weather conditions resulting in no weather delays and high productivity. In addition, the acquisition of Coastal in 2017 contributed gross profit of \$3.2 million. The overall increase was partially offset by the collection of a disputed receivable in 2016 related to a major pipeline project completed in 2014, which resulted in recognizing gross profit of approximately \$26.7 million.

Gross profit as a percentage of revenue increased to 19.8% in 2017 compared to 16.9% in 2016. The increase is due to the good weather conditions noted above, which is not common, partially offset by the collection of the disputed receivable.

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Utilities Segment

Revenue and gross profit for the Utilities segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,				2016	
	2018		2017		(Millions)	% of
	(Millions)	% of Segment Revenue	(Millions)	% of Segment Revenue	(Millions)	Segment Revenue
Utilities Segment						
Revenue	\$ 902.8		\$ 806.5		\$ 637.2	
Gross profit	\$ 111.8	12.4%	\$ 113.0	14.0%	\$ 100.1	15.7%

2018 and 2017

Revenue increased by \$96.3 million, or 11.9%, during 2018 compared to 2017. The increase is primarily attributable to higher revenue from a major utility customer in the Midwest (\$41.5 million), and increased activity with a major utility customer in California (\$40.5 million). In addition, the impact of the acquired FGC operations in the second quarter of 2017 also benefited 2018 (\$15.8 million).

Gross profit decreased \$1.2 million, or 1.1%, during 2018 compared to 2017 primarily due to the impact of a client delay and unfavorable weather conditions experienced by a major utility customer in the Midwest in 2018, partially offset by the impact of acquired operations. Gross profit as a percentage of revenues decreased to 12.4% in 2018 compared to 14.0% in 2017 primarily due to the reasons noted above.

2017 and 2016

Revenue increased by \$169.3 million, or 26.6%, during 2017 compared to 2016. The increase is primarily attributable to higher activity with two major utility customers in California (\$67.7 million combined) and two major utility customers in the Midwest (\$32.3 million combined). In addition, higher revenue from a collaboration MSA arrangement for a major utility customer in California (\$35.6 million) and the impact of the acquired FGC operations (\$15.5 million) also benefited 2017.

Gross profit increased \$12.9 million, or 12.9%, during 2017 compared to 2016. The increase is primarily due to the growth in revenue and the impact of acquired operations. Gross profit as a percentage of revenues decreased to 14.0% in 2017 compared to 15.7% in 2016 primarily as a result of lower gross margins on the collaboration MSA work.

Transmission Segment

Revenue and gross profit for the Transmission segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,		2017		2016	
	2018	% of Segment Revenue	(Millions)	% of Segment Revenue	(Millions)	% of Segment Revenue
Transmission Segment Revenue	\$ 286.8		\$ —		\$ —	
Gross profit	\$ 31.9	11.1%	\$ —	—	\$ —	—

The Transmission segment was created in connection with the acquisition of Willbros. Revenue and gross profit represent results from June 1, 2018, the acquisition date, to December 31, 2018.

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Civil Segment

Revenue and gross profit for the Civil segment for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Year Ended December 31,				2016	
	2018		2017		(Millions)	% of
	(Millions)	% of Segment Revenue	(Millions)	% of Segment Revenue	(Millions)	Segment Revenue
Civil Segment						
Revenue	\$ 465.0		\$ 501.8		\$ 479.2	
Gross profit	\$ 5.6	1.2%	\$ 7.6	1.5%	\$ (16.7)	(3.5%)

2018 and 2017

Revenue decreased by \$36.8 million, or 7.3%, during 2018 compared to 2017. The decrease is primarily due to the substantial completion of a large petrochemical plant project (\$38.5 million) in 2017 and a methanol plant project (\$31.9 million) in 2017 as well as lower Arkansas DOT and Texas DOT volumes. The overall decrease was partially offset by higher Louisiana DOT volumes (\$45.8 million), an ethylene plant project that began in 2018, and increased Florida mine work.

Gross profit decreased by \$2.0 million, or 26.3%, during 2018 compared to 2017. The decrease was primarily due to favorable performance on the methanol plant and petrochemical plant projects in 2017 and higher costs on an airport project in 2018, partially offset by higher profit on Texas DOT and Louisiana DOT projects in 2018. Gross profit as a percentage of revenue for 2018 was consistent with gross profit as a percentage of revenue for 2017.

Revenue at the five Belton area projects was \$124.7 million for the year ended December 31, 2018, representing 26.8% of total Civil segment revenue. Revenue for which no margin was recognized was \$61.9 million for the year ended December 31, 2018. During the year ended December 31, 2018, the four Belton area jobs in a loss position contributed \$7.2 million in gross profit primarily due to increases from expected claim recovery. Two of the Belton area jobs in a loss position were completed during 2017, and the remaining two Belton area jobs in a loss position are scheduled to be completed in the first half of 2019. At December 31, 2018, the accrued loss provision for the two open loss jobs was \$0.7 million and estimated remaining revenue for the open loss jobs was \$8.6 million. The remaining Belton area job is not in a loss position and contributed \$0.8 million gross profit during the year ended December 31, 2018. At December 31, 2018, estimated revenue for the remaining Belton area job was \$28.1 million, with completion scheduled for 2019.

At December 31, 2018, we had approximately \$48.6 million of unapproved contract modifications included in the aggregate transaction prices associated with the Belton area projects. Approximately \$46.4 million of the contract modifications had been recognized as revenue on a cumulative catch-up basis through December 31, 2018.

2017 and 2016

Revenue increased by \$22.6 million, or 4.7%, during 2017 compared to 2016. The increase is primarily due to progress on a methanol plant project in Louisiana that began in 2017 (\$31.9 million) and higher volume on the Belton area projects (\$23.3 million). The overall increase was partially offset by substantial completion of a large petrochemical plant project in Louisiana in the first half of 2017.

Gross profit increased by \$24.3 million during 2017 compared to 2016. The increase was primarily due to a \$37.3 million write-down in 2016 related to the Belton area projects, partially offset by higher costs on two Arkansas DOT projects and one Louisiana DOT project in 2017, despite the revenue increase.

Gross profit as a percentage of revenue increased to 1.5% in 2017 compared to (3.5%) in 2016. The increase was primarily the result of the write-down in 2016 related to the Belton area projects, partially offset by the project cost impacts noted above.

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Planned Divestiture of Texas Heavy Civil Business Unit

In October 2016, we announced that we planned to divest our Texas heavy civil business unit, which operates as a division of Primoris Heavy Civil. We engaged a financial advisor to assist in the marketing and sale of the business unit, and planned to continue to operate the business unit until completion of a sale. In April 2017, the Board of Directors determined that based on the information available, we would attain the best long-term value by withdrawing from the sales process and continuing operating the business unit. We will aggressively pursue claims for five Texas Department of Transportation projects that resulted in significant losses recorded in 2016. However, there can be no assurance as to the final amounts that may be collected.

Liquidity and Capital Resources

Cash Needs

Liquidity represents our ability to pay our liabilities when they become due, fund business operations and meet our contractual obligations and execute our business plan. Our primary sources of liquidity are our cash balances at the beginning of each period and our net cash flow. If needed, we have availability under our lines of credit to augment liquidity needs. On July 9, 2018, we amended our Credit Agreement to include a \$220.0 million term loan that was used to refinance and extinguish all of the notes under our Senior Notes, to pay down a significant portion of the borrowings under our Revolving Credit Facility (as defined below) that was used to finance the acquisition of Willbros, and for general corporate purposes. At December 31, 2018, there were no outstanding borrowings under the Revolving Credit Facility, commercial letters of credit outstanding were \$53.0 million, and available borrowing capacity was \$147.0 million. In order to maintain sufficient liquidity, we evaluate our working capital requirements on a regular basis. We may elect to raise additional capital by issuing common stock, convertible notes, term debt or increasing our credit facility as necessary to fund our operations or to fund the acquisition of new businesses.

Our cash and cash equivalents totaled \$151.1 million at December 31, 2018 compared to \$170.4 million at December 31, 2017. We anticipate that our cash and investments on hand, existing borrowing capacity under our credit facility and our future cash flows from operations will provide sufficient funds to enable us to meet our operating needs, our planned capital expenditures, and settle our commitments and contingencies for at least the next twelve months. In evaluating our liquidity needs, we do not consider cash and cash equivalents held by our consolidated VIEs.

The construction industry is capital intensive, and we expect to continue to make capital expenditures to meet anticipated needs for our services. Historically, we have invested an amount that approximated the sum of depreciation and amortization expenses plus proceeds from equipment sales. In 2018, we spent approximately \$110.2 million for capital expenditures, which included \$13.3 million spent for our investment in the solar projects and \$45.8

million for construction equipment. In addition, the acquisition of Willbros during 2018 added \$30.5 million to property, plant and equipment. For 2018, the amount of depreciation, amortization and equipment sales proceeds was approximately \$90.9 million. Capital expenditures are expected to total \$85.0 to \$90.0 million for 2019.

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Cash Flows

Cash flows during the years ended December 31, 2018, 2017 and 2016 are summarized as follows (in millions):

	Year Ended December 31,		
	2018	2017	2016
Change in cash:			
Net cash provided by operating activities	\$ 126.8	\$ 188.9	\$ 62.6
Net cash used in investing activities	(209.1)	(131.4)	(59.4)
Net cash provided by (used in) financing activities	63.9	(22.9)	(28.5)
Effect of exchange rate changes	(0.9)	—	—
Net change in cash and cash equivalents	\$ (19.3)	\$ 34.6	\$ (25.3)

Operating Activities

The sources and uses of cash flow associated with operating activities for the years ended December 31, 2018, 2017 and 2016 were as follows (in millions):

	2018	2017	2016
Operating Activities:			
Net income	\$ 87.6	\$ 76.9	\$ 27.7
Depreciation and amortization	79.2	66.3	68.0
Changes in assets and liabilities	(38.0)	54.1	(33.0)
Other	(2.0)	(8.4)	(0.1)
Net cash provided by operating activities	\$ 126.8	\$ 188.9	\$ 62.6

2018 and 2017

Net cash provided by operating activities for 2018 was \$126.8 million, a decrease of \$62.1 million compared to 2017. The change year over year was primarily due to an unfavorable impact from the changes in assets and liabilities.

The significant components of the \$38.0 million change in assets and liabilities for the year ended December 31, 2018 are summarized as follows:

- Contract assets increased by \$67.6 million from December 31, 2017, primarily due to higher unbilled revenue;
- Contract liabilities decreased by \$43.8 million from December 31, 2017, primarily due to lower deferred revenue;
- Accounts payable and accrued liabilities increased by \$38.3 million from December 31, 2017, due to the timing of payments; and
- Accounts receivable decreased by \$20.9 million from December 31, 2017, reflecting successful collection efforts during 2018, including the collection of the \$32.9 million disputed receivable discussed in “Receivable Collection Actions” below.

2017 and 2016

Net cash provided by operating activities for 2017 was \$188.9 million , an increase of \$126.3 million compared to 2016. The improvement year over year was primarily due to a favorable change in assets and liabilities and significant growth in net income.

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The significant components of the \$54.1 million change in assets and liabilities for the year ended December 31, 2017 are summarized as follows:

- Accounts receivable decreased by \$60.7 million from December 31, 2016, reflecting successful collection efforts during 2017. For non-disputed receivables, our days sales outstanding declined slightly from 47 days at December 31, 2016 to 46 days at December 31, 2017;
- Contract liabilities increased by \$42.6 million compared to December 31, 2016, primarily due to favorable milestone billings on certain lump sum projects;
- Accounts payable decreased by \$30.5 million due primarily to the timing of payments; and
- Contract assets increased by \$32.1 million compared to December 31, 2016, primarily due to higher unbilled revenue.

Investing activities

Net cash used in investing activities was \$209.1 million, \$131.4 million, and \$59.4 million in the years ended December 31, 2018, 2017, and 2016, respectively.

We purchased property and equipment for \$110.2 million, \$79.8 million and \$58.0 million in the years ended December 31, 2018, 2017 and 2016, respectively, principally for our construction activities. We believe the ownership of equipment is generally preferable to renting equipment on a project-by-project basis, as ownership helps to ensure the equipment is available for our projects when needed. In addition, ownership has historically resulted in lower overall equipment costs.

We periodically sell equipment, typically to update our fleet. We received proceeds from the sale of used equipment of \$11.7 million, \$8.7 million and \$9.6 million for 2018, 2017 and 2016, respectively.

During 2018, we used \$110.6 million for the acquisition of Willbros. During 2017, we used \$66.2 million for acquisitions, primarily related to FGC and Coastal, and in 2016, we used \$11.0 million in cash for the acquisitions of Mueller and Northern.

In connection with the acquisition of Willbros, we agreed to provide, at our discretion, up to \$20.0 million in secured bridge financing to support Willbros' working capital needs through the closing date. In March 2018 and May 2018, we provided \$10.0 million and \$5.0 million, respectively, in secured bridge financing to Willbros. The \$15.0 million was repaid to us in its entirety on June 1, 2018 in conjunction with the close of the Willbros acquisition.

During 2017, we invested \$13.6 million in short-term investments, and sold short-term investments amounting to \$19.4 million. We did not purchase or sell any short-term investments during 2018 or 2016. Short-term investments consisted primarily of marketable equity securities.

Financing activities

Financing activities provided cash of \$63.9 million in 2018, which was primarily due to the following:

- Proceeds from the issuance of a term loan of \$220.0 million;
 - Proceeds from the issuance of debt secured by our equipment and real estate of \$36.0 million;
- Repayment of long-term debt of \$145.7 million;
- Repurchase of common stock of \$20.0 million;
- Cash distributions to non-controlling interest holders of \$13.1 million; and
- Dividend payments to our stockholders of \$12.3 million.

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Financing activities used cash of \$22.9 million in 2017, which was primarily due to the following:

- Proceeds from the issuance of debt secured by our equipment of \$55.0 million;
- Repayment of long-term debt of \$61.8 million;
- Dividend payments to our stockholders of \$11.3 million; and
- Repurchase of common stock of \$5.0 million.

Financing activities used cash of \$28.5 million in 2016, which was primarily due to the following:

- Proceeds from the issuance of debt secured by our equipment of \$45.0 million;
- Repayment of long-term debt of \$57.7 million;
- Dividend payments to our stockholders of \$11.4 million; and
- Repurchase of common stock of \$5.0 million.

Debt Activities

Credit Agreement

On September 29, 2017, we entered into an amended and restated credit agreement (the “Credit Agreement”) with CIBC Bank USA, as administrative agent (the “Administrative Agent”) and co-lead arranger, The Bank of the West, as co-lead arranger, and Branch Banking and Trust Company, IBERIABANK, Bank of America, and Simmons Bank (collectively, the “Lenders”), which increased our borrowing capacity from \$125.0 million to \$200.0 million. The Credit Agreement consisted of a \$200.0 million revolving credit facility (“Revolving Credit Facility”), whereby the Lenders agreed to make loans on a revolving basis from time to time and to issue letters of credit for up to the \$200.0 million committed amount, and contains an accordion feature that will allow us to increase the borrowing capacity thereunder from \$200.0 million up to \$250.0 million, subject to obtaining additional or increased lender commitments.

On July 9, 2018, we entered into the First Amendment and Joinder to the Amended and Restated Credit Agreement (the “July Amendment”) with the Administrative Agent and the Lenders. On August 3, 2018, we entered into the Second Amendment to the Amended and Restated Credit Agreement (the “August Amendment”, and together with the July Amendment, the “Amendments”) with the Administrative Agent and the Lenders. The Amendments amend the Credit Agreement.

The Amendments, among other things, modify the Credit Agreement to add Capital One, N.A. and Regions Bank as Lenders, to add a \$220.0 million term loan (the “Term Loan”), to increase the accordion feature that will allow us to

increase the Term Loan or borrowing capacity under the Revolving Credit Facility by \$75.0 million, and extend the maturity date of the Credit Agreement from September 29, 2022 to July 9, 2023.

The Term Loan requires quarterly principal payments equal to \$2.75 million, or \$11.0 million per annum, for the first three years and \$4.125 million, or \$16.5 million per annum, for years four and five, with the balance due on July 9, 2023. The first principal payment was paid on September 28, 2018.

The proceeds from the Term Loan were used to refinance and extinguish all of the Senior Notes (as discussed below), to pay down a significant portion of the borrowings under our Revolving Credit Facility that was used to finance the acquisition of Willbros, and for general corporate purposes.

The principal amount of any loans under the Credit Agreement will bear variable interest at either: (i) LIBOR plus an applicable margin as specified in the Credit Agreement (based on our senior debt to EBITDA ratio as defined in the Credit Agreement), or (ii) the Base Rate (which is the greater of (a) the Federal Funds Rate plus 0.50% or (b) the prime rate as announced by the Administrative Agent). Non-use fees, letter of credit fees and administrative agent fees are payable at rates specified in the Credit Agreement.

The principal amount of any loan drawn under the Credit Agreement may be prepaid in whole or in part at any time, with a minimum prepayment of \$5.0 million.

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At December 31, 2018, commercial letters of credit outstanding were \$53.0 million. Other than commercial letters of credit, there were no outstanding borrowings under the Revolving Credit Facility, and available borrowing capacity was \$147.0 million at December 31, 2018.

Loans made under the Credit Agreement are secured by our assets, including, among others, our cash, inventory, equipment (excluding equipment subject to permitted liens), and accounts receivable. All of our domestic subsidiaries have issued joint and several guaranties in favor of the Lenders for all amounts under the Credit Agreement.

The Credit Agreement contains various restrictive and financial covenants including, among others, a senior debt/EBITDA ratio and debt service coverage requirements. In addition, the Credit Agreement includes restrictions on investments, change of control provisions and provisions in the event we dispose of more than 20% of our total assets.

We were in compliance with the covenants for the Credit Agreement at December 31, 2018.

On September 13, 2018, we entered into an interest rate swap agreement to manage our exposure to the fluctuations in variable interest rates. The swap effectively exchanged the interest rate on 75% of the debt outstanding under our Term Loan from variable LIBOR to a fixed rate of 2.886% per annum, in each case plus an applicable margin, which was 2.00% at December 31, 2018.

Senior Secured Notes and Shelf Agreement

On December 28, 2012, we entered into a \$50.0 million Senior Secured Notes purchase agreement (“Senior Secured Notes”) and a \$25.0 million private shelf agreement (the “Notes Agreement”) by and among us, The Prudential Investment Management, Inc. and certain Prudential affiliates (the “Noteholders”). On June 3, 2015, the Notes Agreement was amended to provide for the issuance of additional notes of up to \$75.0 million over the three year period ending June 3, 2018 (“Additional Senior Notes” and together with the Senior Secured Notes, the “Senior Notes”).

The Senior Notes were funded in three tranches of \$50.0 million on December 28, 2012, \$25.0 million on July 25, 2013, and \$25.0 million on November 9, 2015, and bore interest at annual rates of 3.65%, 3.85%, and 4.60%, respectively, paid quarterly in arrears.

On July 9, 2018, we used a portion of the proceeds from the Term Loan to pay off and extinguish all of the Senior Notes, which resulted in a prepayment penalty recognized in the third quarter of 2018 of \$2.3 million.

Canadian Credit Facility

We had a demand credit facility for \$8.0 million in Canadian dollars with a Canadian bank for purposes of issuing commercial letters of credit in Canada. During the fourth quarter of 2018, we reduced the amount of the credit facility to \$4.0 million. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. The facility provides for an annual fee of 1.0% for any issued and outstanding commercial letters of credit. Letters of credit can be denominated in either Canadian or U.S. dollars. At December 31, 2018, there were no letters of credit outstanding, and the available borrowing capacity was \$4.0 million in Canadian dollars. The credit facility contains a working capital restrictive covenant for OnQuest Canada, ULC. At December 31, 2018, OnQuest Canada, ULC was in compliance with the covenant.

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Contractual Obligations

As of December 31, 2018, we had \$369.2 million of outstanding long-term debt, and there were no short-term borrowings.

A summary of contractual obligations as of December 31, 2018 was as follows (in millions):

	Total	1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt	\$ 369.2	\$ 62.5	\$ 89.3	\$ 196.1	\$ 21.3
Interest on long-term debt (1)	57.5	14.3	23.6	14.8	4.8
Operating leases	152.5	56.7	68.3	19.3	8.2
	\$ 579.2	\$ 133.5	\$ 181.2	\$ 230.2	\$ 34.3
Letters of credit	\$ 53.0	\$ 53.0	\$ —	\$ —	\$ —

(1)The interest amount represents interest payments for our fixed rate debt assuming that principal payments are made as originally scheduled. Our Credit Agreement bears interest at variable market rates, and estimated payments are based on the interest rate in effect as of December 31, 2018, including the impact of our interest rate swap.

The table does not include potential obligations under multi-employer pension plans in which some of our employees participate. Our multi-employer pension plan contribution rates are generally specified in our collective bargaining agreements, and contributions are made to the plans based on employee payrolls. Our obligations for future periods cannot be determined because we cannot predict the number of employees that we will employ at any given time nor the plans in which they may participate.

We may also be required to make additional contributions to multi-employer pension plans if they become underfunded, and these contributions will be determined based on our union payroll. The Pension Protection Act of 2006 added special funding and operational rules for multi-employer plans that are classified as “endangered,” “seriously endangered” or “critical” status. Plans in these classifications must adopt measures to improve their funded status through a funding improvement or rehabilitation plan, which may require additional contributions from employers. The amounts of additional funds that we may be obligated to contribute cannot be reasonably estimated and is not included in the table above.

Related Party Transactions

For information regarding related party transactions, see Note 18 — “Related Party Transactions” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

Off Balance Sheet Arrangements

We enter into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected on our balance sheet. We have no off-balance sheet financing arrangement with VIEs. The following represents transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

- At December 31, 2018, we had letters of credit outstanding of \$53.0 million under the terms of our credit agreements. These letters of credit are primarily used by our insurance carriers to ensure reimbursement for amounts that they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance program. In addition, from time to time, certain customers require us to post a letter of credit to ensure payments to our subcontractors or guarantee performance under our contracts. Letters of credit reduce our borrowing availability under our Credit Agreement and Canadian Credit Facility. If these letters of credit were drawn on by the beneficiary, we would be required to reimburse the issuer of the letter of credit, and we may be required to record a charge to earnings for the reimbursement. We do not believe that it is likely that any material claims will be made under a letter of credit.

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- We enter into non-cancellable operating leases for some of our facilities, equipment and vehicles. At December 31, 2018, total operating lease commitments were \$152.5 million. Accounting treatment of operating leases changed in accordance with ASU 2016-02, “Leases (Topic 842)”, effective January 1, 2019.
- In the ordinary course of our business, we may be required by our customers to post surety bid or completion bonds in connection with services that we provide. At December 31, 2018, we had \$554.9 million in outstanding bonds, based on the remaining contract value to be recognized on bonded jobs. We do not believe that it is likely that we would have to fund material claims under our surety arrangements.
- Certain of our subsidiaries are parties to collective bargaining agreements with unions. In most instances, these agreements require that we contribute to multi-employer pension and health and welfare plans. For many plans, the contributions are determined annually and required future contributions cannot be determined since contribution rates depend on the total number of union employees and actuarial calculations based on the demographics of all participants. The Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Multi-Employer Pension Amendments Act of 1980, subjects employers to potential liabilities in the event of an employer’s complete or partial withdrawal of an underfunded multi-employer pension plan. The Pension Protection Act of 2006 added new funding rules that are classified as “endangered”, “seriously endangered”, or “critical” status. As discussed in Note 12 — “Commitments and Contingencies” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, we withdrew from one plan in 2011 and paid the final withdrawal liability associated with that plan in 2018. We currently do not anticipate withdrawal from any other multi-employer pension plans. Withdrawal liabilities or requirements for increased future contributions could negatively impact our results of operations and liquidity.
- We enter into employment agreements with certain employees which provide for compensation and benefits under certain circumstances and which may contain a change of control clause. We may be obligated to make payments under the terms of these agreements.
- From time to time we make other guarantees, such as guaranteeing the obligations of our subsidiaries.

Receivable Collection Actions

As do all construction contractors, we negotiate payments with our customers from time to time, and we may encounter delays in receiving payments from our customers. We had been engaged in dispute resolution to collect money we believe we were owed for two construction projects completed in 2014.

For the first project, a cost reimbursable contract, we had recorded a receivable of \$32.9 million with a reserve of approximately \$17.9 million included in “Contract liabilities” at December 31, 2017. The dispute resolution for the receivable initially required international arbitration; however, in the first half of 2016, the owner sought bankruptcy protection in U.S. bankruptcy court. We initiated litigation against the sureties who had provided lien and stop payment release bonds for the total amount owed. During 2018, we settled with the sureties and collected the \$32.9

million receivable, which resulted in recognizing additional revenue of approximately \$18.1 million and gross profit of approximately \$17.4 million.

For the second project, we had recorded a receivable of \$17.9 million. During 2016, we settled the dispute with an exchange of general releases and receipt of \$38.0 million in cash, which resulted in recognizing revenue of approximately \$27.5 million and gross profit of approximately \$26.7 million in 2016.

2019 Outlook

We anticipate potential changes to the previously stringent regulatory and environmental requirements for many of our clients' infrastructure projects, which may improve the timing and certainty of the projects. While fluctuating oil prices create uncertainty as to the timing of some of our opportunities, we are beginning to see preliminary bidding activity for larger gas, oil and derivatives projects. We believe that we have the financial and operational strength to

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meet either short-term delays or the impact of significant increases in work. We continue to be optimistic about both short and longer-term opportunities. Our view of the outlook for our major end markets currently is as follows:

- Construction of petroleum, natural gas, and natural gas liquid pipelines — We expect that the significant volatility in the price of oil could reduce the activities in most if not all of the shale basins until a higher oil price is sustained. In addition, the ability of our customers to obtain permits for projects could impact the demand for our services. As a result, any upstream work such as gathering lines and petroleum transport pipelines could be reduced or delayed for the near future. However, if production from the shale formations continues to increase in the near future, the current disconnect between production and processing locations would provide opportunities for our Pipeline segment. We expect that the efforts by gas utilities to move shale gas from the Marcellus region to Florida and other Atlantic states could continue to provide significant opportunity over the next 2-3 years.
- Inspection, maintenance and replacement of gas utility infrastructure — We expect that ongoing safety enhancements to the gas utility infrastructure will provide continuing opportunities for our Utilities segment, especially in California, as well as in the Midwest. We also expect that ongoing gas utility repair and maintenance opportunities will continue to grow.
- Inspection, maintenance and replacement of electric utility infrastructure — We expect the demand for electricity in the U.S. to grow over the long term and believe enhancements to the electric utility infrastructure are needed to efficiently serve the power needs of the future. In addition, current federal legislation also requires the power industry to meet federal reliability standards for its transmission and distribution systems. We expect these opportunities, as well as ongoing electric utility repair and maintenance opportunities to benefit our Transmission segment.
- Construction of natural gas-fired power plants and heavy industrial plants — We expect continued construction opportunities for both base-load and peak shaving power plants; however, we are aware that concerns expressed in California over gas fired power plants as not “acceptable” for environmental reasons may impact the timing of near term construction opportunities. We believe that based on continuing population growth, the intermittency of renewable power resources and the environmental requirements limiting using ocean water for cooling, power plants will be needed in spite of vocal opposition to “non-green” sources. In addition, the current low price of natural gas could result in the conversion of coal-fired power plants and conversion and expansion at chemical plants and industrial facilities in other parts of the United States. These opportunities would benefit our Power segment.
- Construction of alternative energy facilities, wind farms, solar energy — We anticipate continued construction opportunities as state governments remain committed to renewable power standards, primarily benefitting our Power segment.
- Transportation infrastructure construction opportunities — We believe that passing of longer term highway funding by the federal government in 2015, results of the 2016 federal election, and voter approval of highway funding proposition 7 in Texas will continue to provide opportunity for our heavy civil and highway groups, especially in Texas. We expect that opportunities in the Louisiana market may improve but will remain at depressed levels except for specific programs. This market primarily impacts the operations of our Civil segment.

- Liquefied Natural Gas Facilities (“LNG”) —We believe the LNG opportunities for rail, barge, and other transportation needs will continue to grow, although such growth may be at a slow pace. This market will primarily impact our Civil and Power segments. We further believe the existing large scale LNG export facilities currently being planned will require services that will benefit our Pipeline segment for field services.

Please note that our 2019 outlook and 2019 financial results could be adversely impacted by many factors including those discussed in Item 1A “Risk Factors” in this Annual Report on Form 10-K. This “2019 Outlook” consists

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of forward-looking statements and should be read in conjunction with the section entitled “Forward-Looking Statements” at the beginning of this Annual Report on Form 10-K, which contains cautionary language about forward-looking statements.

Backlog

For companies in the construction industry, backlog can be an indicator of future revenue streams. Different companies define and calculate backlog in different manners. We define backlog as a combination of: (1) anticipated revenue from the uncompleted portions of existing contracts for which we have known revenue amounts for fixed-price and unit-price contracts (“Fixed Backlog”), and (2) the estimated revenue on MSA work for the next four quarters (“MSA Backlog”). We normally do not include time-and-equipment, time-and-materials and cost reimbursable plus fee contracts in the calculation of backlog, since their final revenue amount is difficult to estimate in advance. However, we will include these types of contracts in backlog if the customer specifies an anticipated revenue amount.

The two components of backlog, Fixed Backlog and MSA Backlog, are detailed below.

Fixed Backlog

Fixed Backlog by reporting segment and the changes in Fixed Backlog for the periods ending December 31, 2018, 2017 and 2016 were as follows, (in millions):

Reportable Segment	Beginning Fixed	Contract	Revenue	Ending Fixed	Revenue	Total Revenue
	Backlog at			Backlog at	Recognized from	for 12 Months
	December 31,	Additions to	Recognized from	December 31,	Non-Fixed	ended
	2017	Fixed Backlog	Fixed Backlog	2018	Backlog	December 31,
					Projects	2018
Power	\$ 382.2	\$ 416.0	\$ 552.9	\$ 245.3	\$ 141.1	\$ 694.0
Pipeline	777.7	438.6	543.8	672.5	47.1	590.9
Utilities	58.7	181.8	202.8	37.7	700.0	902.8
Transmission	—	61.5	(1) 46.6	14.9	240.2	286.8
Civil	606.0	354.3	454.7	505.6	10.3	465.0
Total	\$ 1,824.6	\$ 1,452.2	\$ 1,800.8	\$ 1,476.0	\$ 1,138.7	\$ 2,939.5

(1) Includes backlog acquired from the Willbros acquisition.

Reportable Segment	Beginning Fixed Backlog at	Contract	Revenue	Ending Fixed Backlog at	Revenue	Total Revenue
	December 31, 2016	Additions to Fixed Backlog	Recognized from Fixed Backlog	December 31, 2017	Recognized from Non-Fixed Backlog Projects	for 12 Months ended December 31, 2017
Power	\$ 469.6	\$ 464.7	\$ 552.1	\$ 382.2	\$ 54.0	\$ 606.1
Pipeline	1,019.4	194.1	435.8	777.7	29.8	465.6
Utilities	31.5	252.4	225.2	58.7	581.3	806.5
Civil	605.9	493.0	492.9	606.0	8.9	501.8
Total	\$ 2,126.4	\$ 1,404.2	\$ 1,706.0	\$ 1,824.6	\$ 674.0	\$ 2,380.0

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Reportable Segment	Beginning Fixed Backlog at	Contract	Revenue	Ending Fixed Backlog at	Revenue	Total Revenue
	December 31, 2015	Additions to Fixed Backlog	Recognized from Fixed Backlog	December 31, 2016	Recognized from Non-Fixed Backlog Projects	for 12 months ended December 31, 2016
Power	\$ 549.3	\$ 345.1	\$ 424.8	\$ 469.6	\$ 53.8	\$ 478.6
Pipeline	225.6	1,161.9	368.1	1,019.4	33.8	401.9
Utilities	42.8	140.7	152.0	31.5	485.2	637.2
Civil	699.5	370.9	464.5	605.9	14.7	479.2
Total	\$ 1,517.2	\$ 2,018.6	\$ 1,409.4	\$ 2,126.4	\$ 587.5	\$ 1,996.9

Revenue recognized from non-Fixed Backlog projects shown above is primarily generated by MSA projects along with projects completed under time-and-equipment, time-and-materials and cost-reimbursable-plus-fee contracts or are revenue from the sale of construction materials, such as rock or asphalt to outside third parties or sales of water services.

At December 31, 2018, our total Fixed Backlog was \$1.48 billion, representing a decrease of \$348.6 million, or 19.1%, from \$1.82 billion as of December 31, 2017.

MSA Backlog

The following table outlines historical MSA revenue for the twelve months ending December 31, 2018, 2017 and 2016 (in millions):

Year:	MSA Revenue
2018	\$ 1,128.6
2017	665.3
2016	576.2

MSA Backlog includes anticipated MSA revenue for the next twelve months. We estimate MSA revenue based on historical trends, anticipated seasonal impacts and estimates of customer demand based on information from our customers.

The following table shows our estimated MSA Backlog at December 31, 2018, 2017 and 2016 by reportable segment (in millions):

Reportable Segment:	MSA Backlog at December 31, 2018	MSA Backlog at December 31, 2017	MSA Backlog at December 31, 2016
Power	\$ 121.8	\$ 40.8	\$ 42.3
Pipeline	30.3	35.3	33.2
Utilities	751.6	680.5	575.0
Transmission	380.0	—	—
Civil	—	18.2	21.0
Total	\$ 1,283.7	\$ 774.8	\$ 671.5

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Total Backlog

The following table shows total backlog (Fixed Backlog plus MSA Backlog), by reportable segment at December 31, 2018, 2017 and 2016 (in millions):

Reportable Segment:	Total Backlog at December 31, 2018	Total Backlog at December 31, 2017	Total Backlog at December 31, 2016
Power	\$ 367.1	\$ 423.0	\$ 511.9
Pipeline	702.8	813.0	1,052.6
Utilities	789.3	739.2	606.5
Transmission	394.9	—	—
Civil	505.6	624.2	626.9
Total	\$ 2,759.7	\$ 2,599.4	\$ 2,797.9

We expect that during 2019, we will recognize as revenue approximately 84% of the total backlog at December 31, 2018, comprised of backlog of approximately: 91% of the Power segment; 63% of the Pipeline segment; 100% of the Utilities segment; 100% of the Transmission segment and 69% of the Civil segment.

Backlog should not be considered a comprehensive indicator of future revenue, as a percentage of our revenue is derived from projects that are not part of a backlog calculation. The backlog estimates include amounts from estimated MSA revenue, but our customers are not contractually obligated to purchase an amount of services from us under the MSAs. Any of our contracts, MSA, fixed-price or unit-price contracts, may be terminated by our customers on relatively short notice. In the event of a project cancellation, we may be reimbursed for certain costs, but typically we have no contractual right to the total revenue reflected in backlog. Projects may remain in backlog for extended periods of time as a result of customer delays, regulatory requirements or project specific issues. Future revenue from projects completed under time-and-equipment, time-and-materials and cost-reimbursable-plus-fee contracts may not be included in our estimated backlog amount.

Effects of Inflation and Changing Prices

Our operations are affected by increases in prices, whether caused by inflation or other economic factors. We attempt to recover anticipated increases in the cost of labor, equipment, fuel and materials through price escalation provisions in certain major contracts or by considering the estimated effect of such increases when bidding or pricing new work or by entering into back-to-back contracts with suppliers and subcontractors. During the years ended December 31, 2018, 2017, and 2016, inflation did not have a material impact on our business.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the ordinary course of business, we are exposed to risks related to market conditions. These risks primarily include fluctuations in foreign currency exchange rates, interest rates and commodity prices. We may seek to manage these risks through the use of financial derivative instruments. These instruments may include foreign currency exchange contracts and interest rate swaps.

The carrying amounts for cash and cash equivalents, accounts receivable, short term investments, short-term debt, accounts payable and accrued liabilities shown in the Consolidated Balance Sheets approximate fair value at December 31, 2018, due to the generally short maturities of these items.

Our revolving credit facility and term loan bear interest at a variable rate and exposes us to interest rate risk. From time to time, we may use certain derivative instruments to hedge our exposure to variable interest rates. As of December 31, 2018, \$160.9 million of our variable rate debt outstanding was economically hedged and the remaining \$53.6 million was unhedged. Based on our variable rate debt outstanding as of December 31, 2018, a 1.0% increase or decrease in interest rates would change annual interest expense by approximately \$0.5 million.

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We do not execute transactions or use financial derivative instruments for trading or speculative purposes. We generally enter into transactions with counter parties that are financial institutions as a means to limit significant exposure with any one party.

ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial statements, supplementary financial data and financial statement schedules are included in a separate section at the end of this Annual Report on Form 10-K, and are incorporated herein by reference. The financial statements, supplementary data and schedules are listed in the index on page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any system of controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, as ours are designed to do, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives.

In connection with the preparation of this Annual Report on Form 10-K, as of December 31, 2018, an evaluation was performed under the supervision and with the participation of our management, including our CEO and CFO, of the

effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2018, to ensure that the information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed 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. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

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- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our CEO and CFO, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018. Management based this assessment on the framework in “Internal Control–Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our CEO and CFO concluded that our internal control over financial reporting was effective as of December 31, 2018. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

As discussed in Note 4 — “Business Combinations” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, we acquired Willbros on June 1, 2018. Willbros constitutes approximately 12.1% of total assets (excluding approximately \$98.7 million of goodwill and intangible assets), and approximately 13.6% of total revenue of the consolidated financial statement amounts as of and for the year ended December 31, 2018. As the acquisition of Willbros occurred in the second quarter of 2018, we excluded Willbros’ from our assessment of the effectiveness of internal controls over financial reporting. This exclusion is in accordance with the general guidance issued by the Staff of the SEC that an assessment of a recently acquired business may be omitted from our scope in the year of acquisition.

Independent Registered Public Accounting Firm Report

Moss Adams LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued a report on our internal control over financial reporting as of December 31, 2018. The report, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2018, is included in “Item 8. Financial Statements and Supplemental Data” under the heading “Report of Independent Registered Public Accounting Firm.”

ITEM 9B.OTHER INFORMATION

None.

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PART III

ITEM 10.DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required under this Item 10 is set forth in our Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of December 31, 2018 (the “Proxy Statement”) and is incorporated herein by reference.

ITEM 11.EXECUTIVE COMPENSATION

The information required under this Item 11 is set forth in our Proxy Statement and is incorporated herein by reference, except for the information set forth under the caption, “Compensation Committee Report” of our Proxy Statement, which specifically is not incorporated herein by reference.

ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item 12 is set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required under this Item 13 is set forth in our Proxy Statement and is incorporated herein by reference.

ITEM 14.PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this Item 14 is set forth in our Proxy Statement and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(A) We have filed the following documents as part of this Report:

1. Consolidated Balance Sheets of Primoris Services Corporation and subsidiaries as of December 31, 2018 and 2017 and the related Consolidated Statements of Income, Comprehensive Income, Stockholders' Equity and Cash Flows for the years ended December 31, 2018, 2017 and 2016.
2. Report of Moss Adams LLP, independent registered public accounting firm, related to the consolidated financial statements in part (A)(1) above.
3. Notes to the consolidated financial statements in part (A)(1) above.
4. List of exhibits required by Item 601 of Regulation S-K. See part (B) below.

(B) The following is a complete list of exhibits filed as part of this Report, some of which are incorporated herein by reference from certain other of our reports, registration statements and other filings with the SEC, as referenced below:

Exhibit No.	Description
Exhibit 2.1	<u>Agreement and Plan of Merger, dated March 27, 2018, among Primoris Services Corporation, Waco Acquisition Vehicle, Inc. and Willbros Group, Inc. (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K, as filed with the SEC on March 28, 2018)</u>
Exhibit 3.1	<u>Fifth Amended and Restated Certificate of Incorporation of Primoris Services Corporation, dated May 4, 2018 (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q, as filed with the SEC on November 11, 2018)</u>
Exhibit 3.2	

Amended and Restated Bylaws of Primoris Services Corporation (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K, as filed with the SEC on August 6, 2008)

- Exhibit 3.3 Certificate of Designations, Powers, Preferences and Rights of the Series A Non-Voting Contingent Convertible Preferred Stock of Primoris Services Corporation, dated December 14, 2009 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K, as filed with the SEC on December 17, 2009)
- Exhibit 4.1 Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.2 to our Registration Statement on Form S-1 (File No. 333-134694), as filed with the SEC on June 2, 2006)
- Exhibit 10.1 2008 Long-Term Equity Incentive Plan (incorporated by reference to Annex C to our Registration Statement on Form S-4/A (Amendment No. 4) (File No. 333-150343), as filed with the SEC on July 9, 2008) (#)

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Exhibit No.	Description
Exhibit 10.2	<u>2013 Equity Incentive Plan (incorporated by reference to Appendix A to our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 9, 2013) (#)</u>
Exhibit 10.3	<u>Amended and Restated Credit Agreement, dated September 29, 2017, by and among Primoris Services Corporation and CIBC Bank USA, Bank of the West, Branch Banking and Trust Company, IBERIABANK, Bank of America, and Simmons Bank. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, as filed with the SEC on November 6, 2017)</u>
Exhibit 10.4	<u>Credit Agreement, dated December 28, 2012, by and among Primoris Services Corporation and The PrivateBank and Trust Company, The Bank of the West and IBERIABANK Corporation (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, as filed with the SEC on January 7, 2013)</u>
Exhibit 10.5	<u>Waiver and Amendment Agreement, dated as of April 30, 2013, by and among Primoris Services Corporation and The PrivateBank and Trust Company and other financial institutions party to the Credit Agreement. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, as filed with the SEC on December 18, 2014)</u>
Exhibit 10.6	<u>Second Amendment and Waiver Agreement, dated as of August 25, 2014, by and among Primoris Services Corporation and The PrivateBank and Trust Company and other financial institutions party to the Credit Agreement. (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, as filed with the SEC on December 18, 2014)</u>
Exhibit 10.7	<u>Third Amendment to Credit Agreement, dated as of December 12, 2014, by and among Primoris Services Corporation and The PrivateBank and Trust Company, The Bank of the West, IBERIABANK Corporation, Branch Banking and Trust Company and UMB Bank, N.A. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, as filed with the SEC on December 18, 2014)</u>
Exhibit 10.8	<u>First Amendment and Joinder to Amended and Restated Credit Agreement by and among Primoris Services Corporation and CIBC Bank USA, Bank of the West, Capital One, N.A., Regions Bank, Branch Banking and Trust Company, IBERIABANK, Bank of America, and Simmons Bank (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, as filed with the SEC on July 9, 2018)</u>
Exhibit 10.9	<u>Second Amendment to Amended and Restated Credit Agreement by and among Primoris Services Corporation and CIBC Bank USA, Bank of the West, Capital One, N.A., Regions Bank, Branch Banking and Trust Company, IBERIABANK, Bank of America, and Simmons Bank (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, as filed with the SEC on August 7, 2018)</u>

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Exhibit No.	Description
Exhibit 10.10	<u>General Indemnity Agreement, dated January 24, 2012, by and among Primoris Services Corporation, ARB, Inc. ARB Structures, Inc., OnQuest, Inc., OnQuest Heaters, Inc. Born Heaters Canada ULC, Cardinal Contractors, Inc., Cardinal Southeast, Inc., Stellaris, LLC, GML Coatings, LLC, James Construction Group, LLC, Juniper Rock Corporation, Rockford Corporation; Alaska Continental Pipeline, Inc., All Day Electric Company, Inc. Primoris Renewables, LLC, Rockford Pipelines Canada, Inc. and Chubb Group of Insurance Companies (incorporated by reference to Exhibit 10.51 to our Annual Report on Form 10-K, as filed with the SEC on March 5, 2012)</u>
Exhibit 10.11	<u>Note Purchase and Private Shelf Agreement, dated December 28, 2012, by and among Primoris Services Corporation and Prudential Investment Management, Inc. and certain Prudential affiliates (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, as filed with the SEC on January 7, 2013)</u>
Exhibit 10.12	<u>Confirmation of Acceptance Agreement, dated June 13, 2013, by and among Primoris Services Corporation and Prudential Investment Management, Inc. and certain Prudential affiliates pursuant to the Note Purchase and Private Shelf Agreement, dated December 28, 2012 and five 3.85% Senior Secured Notes, Series B, due July 25, 2023 (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, as filed with the SEC on August 7, 2013)</u>
Exhibit 10.13	<u>Third Letter Amendment to Shelf Agreement, dated as of June 3, 2015, by and among Primoris Services Corporation and Prudential Investment Management, Inc. and each other Holder (as defined in the Shelf Agreement). (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, as filed with the SEC on June 9, 2015)</u>
Exhibit 10.14	<u>Contribution Agreement, dated as of September 30, 2013, by and among WesPac Energy LLC, Kealine Holdings LLC, Primoris Services Corporation and WesPac Midstream LLC and Highstar WesPac Main Interco LLC and Highstar WesPac Prism/IV-A Interco LLC (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, as filed with the SEC on November 5, 2013)</u>
Exhibit 10.15	<u>Agreement for Services, dated August 1, 2015, by and among Primoris Services Corporation and Brian Pratt. (incorporated by reference to Exhibit 10.56 to our Annual Report on Form 10-K, as filed with the SEC on February 29, 2016) (#)</u>
Exhibit 10.16	<u>Employment Agreement, dated August 1, 2015, by and among Primoris Services Corporation and David L. King. (incorporated by reference to Exhibit 10.57 to our Annual Report on Form 10-K, as filed with the SEC on February 29, 2016) (#)</u>
Exhibit 10.17	<u>Employment Agreement, dated April 5, 2016, by and among Primoris Services Corporation and Thomas McCormick. (incorporated by reference to Exhibit 99.2 to our Current Report on Form 8-K, as filed with the SEC on April 8, 2016) (#)</u>
Exhibit 14.1	<u>Code of Ethics and Business Conduct (incorporated by reference to Exhibit 14.1 to our Annual Report on Form 10-K, as filed with the SEC on March 11, 2010)</u>

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Exhibit No.	Description
Exhibit 21.1	<u>Subsidiaries and equity investments of Primoris Services Corporation (*)</u>
Exhibit 23.1	<u>Consent of Moss Adams LLP (*)</u>
Exhibit 31.1	<u>Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)</u>
Exhibit 31.2	<u>Certification of chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)</u>
Exhibit 32.1	<u>Certification of chief executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (**)</u>
Exhibit 32.2	<u>Certification of chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (**)</u>
Exhibit 101 INS	XBRL Instance Document (*)
Exhibit 101 SCH	XBRL Taxonomy Extension Schema Document (*)
Exhibit 101 CAL	XBRL Taxonomy Extension Calculation Linkbase Document (*)
Exhibit 101 LAB	XBRL Taxonomy Extension Label Linkbase Document (*)
Exhibit 101 PRE	XBRL Taxonomy Extension Presentation Linkbase Document (*)
Exhibit 101 DEF	XBRL Taxonomy Extension Definition Linkbase Document (*)

(#)Management contract or compensatory plan, contract or arrangement.

(*)Filed herewith.

(**)This certification will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Primoris Services Corporation (Registrant)

Date: February 27, 2019 BY: /s/ KENNETH M. DODGEN
Kenneth M. Dodgen
Executive Vice President, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated and on the date indicated.

Signature	Title
BY: /s/ DAVID L. KING David L. King	President, Chief Executive Officer and Director (Principal Executive Officer)
BY: /s/ KENNETH M. DODGEN Kenneth M. Dodgen	Executive Vice President, Chief Financial Officer (Principal Financial Officer)
BY: /s/ TRAVIS L. STRICKER Travis L. Stricker	Senior Vice President, Chief Accounting Officer (Principal Accounting Officer)
BY: /s/ BRIAN PRATT Brian Pratt	Chairman of the Board of Directors
BY: /s/ PETER C. BROWN Peter C. Brown	Director

BY: /s/ STEPHEN C. COOK Director
Stephen C. Cook

BY: /s/ JOHN P. SCHAUERMAN Director
John P. Schauerman

BY: /s/ ROBERT A. TINSTMAN Director
Robert A. Tinstman

BY: /s/ THOMAS E. TUCKER Director
Thomas E. Tucker

Date: February 27, 2019

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PRIMORIS SERVICES CORPORATION

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Primoris Services Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Primoris Services Corporation (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

Change in Accounting Principles

As discussed in Note 5 to the consolidated financial statements, in 2018 the Company changed its method of accounting for revenue recognition due to the adoption of Accounting Standards Codification Topic No. 606.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on the Company’s consolidated financial

statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Management's Annual Report on Internal Control Over Financial Reporting, on June 1, 2018, the Company acquired Willbros Group, Inc. ("Willbros"). For the purposes of assessing internal control over financial reporting, management excluded Willbros, whose financial statements constitute 12.1% of the Company's consolidated total assets as of December 31, 2018 (excluding \$98.7 million of goodwill and intangible assets, which were integrated into the Company's control environment)

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and 13.6% of consolidated total revenue for the year ended December 31, 2018. Accordingly, our audit did not include the internal control over financial reporting of Willbros.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moss Adams LLP

San Diego, California

February 27, 2019

We have served as the Company's auditor since 2006.

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PRIMORIS SERVICES CORPORATION

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents (\$3,127 and \$60,256 related to VIEs. See Note 11)	\$ 151,063	\$ 170,385
Accounts receivable, net	372,695	291,589
Contract assets	364,245	265,902
Prepaid expenses and other current assets	36,444	15,338
Total current assets	924,447	743,214
Property and equipment, net	375,884	311,777
Deferred tax assets	1,457	—
Intangible assets, net	81,198	44,800
Goodwill	206,159	153,374
Other long-term assets	5,002	2,575
Total assets	\$ 1,594,147	\$ 1,255,740
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 249,217	\$ 140,943
Contract liabilities	189,539	169,377
Accrued liabilities	117,527	76,027
Dividends payable	3,043	3,087
Current portion of long-term debt	62,488	65,464
Total current liabilities	621,814	454,898
Long-term debt, net of current portion	305,669	193,351
Deferred tax liabilities	8,166	13,571
Other long-term liabilities	51,515	31,737
Total liabilities	987,164	693,557
Commitments and contingencies (See Note 12)		
Stockholders' equity		
Common stock—\$.0001 par value; 90,000,000 shares authorized; 50,715,518 and 51,448,753 issued and outstanding at December 31, 2018 and December 31, 2017	5	5
Additional paid-in capital	144,048	160,502
Retained earnings	461,075	395,961
Accumulated other comprehensive loss	(908)	—
Noncontrolling interest	2,763	5,715
Total stockholders' equity	606,983	562,183
Total liabilities and stockholders' equity	\$ 1,594,147	\$ 1,255,740

See accompanying notes.

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PRIMORIS SERVICES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

	Year Ended December 31,		
	2018	2017	2016
Revenue	\$ 2,939,478	\$ 2,379,995	\$ 1,996,948
Cost of revenue	2,613,741	2,101,561	1,795,641
Gross profit	325,737	278,434	201,307
Selling, general and administrative expenses	182,006	170,372	140,027
Merger and related costs	13,260	1,774	815
Impairment of goodwill	—	—	2,716
Operating income	130,471	106,288	57,749
Other income (expense):			
Investment income	—	5,817	—
Foreign exchange gain	688	253	202
Other income (expense), net	(808)	484	(315)
Interest income	1,753	587	149
Interest expense	(18,746)	(8,146)	(8,914)
Income before provision for income taxes	113,358	105,283	48,871
Provision for income taxes	(25,765)	(28,433)	(21,146)
Net income	87,593	76,850	27,725
Less net income attributable to noncontrolling interests	(10,132)	(4,496)	(1,002)
Net income attributable to Primoris	\$ 77,461	\$ 72,354	\$ 26,723
Dividends per common share	\$ 0.240	\$ 0.225	\$ 0.220
Earnings per share:			
Basic	\$ 1.51	\$ 1.41	\$ 0.52
Diluted	\$ 1.50	\$ 1.40	\$ 0.51
Weighted average common shares outstanding:			
Basic	51,350	51,481	51,762
Diluted	51,670	51,741	51,989

See accompanying notes.

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PRIMORIS SERVICES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income	\$ 87,593	\$ 76,850	\$ 27,725
Other comprehensive loss, net of tax:			
Foreign currency translation adjustments	(908)	—	—
Comprehensive income	86,685	76,850	27,725
Less net income attributable to noncontrolling interests	(10,132)	(4,496)	(1,002)
Comprehensive income attributable to Primoris	\$ 76,553	\$ 72,354	\$ 26,723

See accompanying notes.

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PRIMORIS SERVICES CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In Thousands, Except Share Amounts)

	Common Stock Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non controlling Interest	Total Stockholders' Equity
Balance, December 31, 2015	51,676,140	\$ 5	\$ 163,344	\$ 319,899	\$ —	\$ 217	\$ 483,465
Net income	—	—	—	26,723	—	1,002	27,725
Issuance of shares to employees and directors	108,102	—	2,133	—	—	—	2,133
Amortization of Restricted Stock Units	—	—	1,627	—	—	—	1,627
Dividend equivalent Units accrued - Restricted Stock Units	—	—	23	(23)	—	—	—
Repurchase of stock	(207,800)	—	(4,999)	—	—	—	(4,999)
Dividends	—	—	—	(11,381)	—	—	(11,381)
Balance, December 31, 2016	51,576,442	\$ 5	\$ 162,128	\$ 335,218	\$ —	\$ 1,219	\$ 498,570
Net income	—	—	—	72,354	—	4,496	76,850
Issuance of shares to employees and directors	88,661	—	2,210	—	—	—	2,210
Amortization of Restricted Stock Units	—	—	1,126	—	—	—	1,126
Dividend equivalent Units accrued - Restricted Stock Units	—	—	37	(37)	—	—	—
Repurchase of stock	(216,350)	—	(4,999)	—	—	—	(4,999)
Dividends	—	—	—	(11,574)	—	—	(11,574)
Balance, December 31, 2017	51,448,753	\$ 5	\$ 160,502	\$ 395,961	\$ —	\$ 5,715	\$ 562,183
Net income	—	—	—	77,461	—	10,132	87,593
	—	—	—	—	(908)	—	(908)

Foreign currency translation adjustments, net of tax							
Issuance of shares to employees and directors	91,911	—	2,245	—	—	—	2,245
Amortization of Restricted Stock Units	—	—	1,253	—	—	—	1,253
Dividend equivalent Units accrued - Restricted Stock Units	—	—	48	(48)	—	—	—
Repurchase of stock	(825,146)	—	(20,000)	—	—	—	(20,000)
Distribution of non-controlling entities	—	—	—	—	—	(13,084)	(13,084)
Dividends declared	—	—	—	(12,299)	—	—	(12,299)
Balance, December 31, 2018	50,715,518	\$ 5	\$ 144,048	\$ 461,075	\$ (908)	\$ 2,763	\$ 606,983

See accompanying notes.

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PRIMORIS SERVICES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	\$ 87,593	\$ 76,850	\$ 27,725
Adjustments to reconcile net income to net cash provided by operating activities (net of effect of acquisitions):			
Depreciation	67,948	57,614	61,433
Amortization of intangible assets	11,302	8,689	6,597
Goodwill and intangible asset impairment	—	477	2,716
Stock-based compensation expense	1,253	1,126	1,627
Gain on short-term investments	—	(5,817)	—
Gain on sale of property and equipment	(3,556)	(4,434)	(4,677)
Other non-cash items	275	203	174
Changes in assets and liabilities:			
Accounts receivable	20,912	60,739	(50,809)
Contract assets	(67,593)	(32,137)	(18,455)
Other current assets	(2,278)	7,507	903
Net deferred tax liabilities (assets)	17,155	3,741	10,905
Other long-term assets	244	28	(1,792)
Accounts payable	32,323	(30,547)	42,934
Contract liabilities	(43,801)	42,610	(21,601)
Accrued liabilities	5,933	1,915	8,574
Other long-term liabilities	(895)	378	(3,677)
Net cash provided by operating activities	126,815	188,942	62,577
Cash flows from investing activities:			
Purchase of property and equipment	(110,189)	(79,782)	(58,027)
Issuance of a note receivable	(15,000)	—	—
Proceeds from a note receivable	15,000	—	—
Proceeds from sale of property and equipment	11,657	8,736	9,603
Purchase of short-term investments	—	(13,588)	—
Sale of short-term investments	—	19,405	—
Cash paid for acquisitions, net of cash and restricted cash acquired	(110,620)	(66,205)	(10,997)
Net cash used in investing activities	(209,152)	(131,434)	(59,421)
Cash flows from financing activities:			
Borrowings under revolving line of credit	190,000	—	—
Payments on revolving line of credit	(190,000)	—	—
Proceeds from issuance of long-term debt	255,967	55,000	45,000
Repayment of long-term debt	(145,726)	(61,816)	(57,719)
Proceeds from issuance of common stock purchased under a long-term incentive plan	1,498	1,148	1,440
Payment of contingent earnout liability	(1,200)	—	—
Cash distribution to non-controlling interest holders	(13,084)	—	—

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Repurchase of common stock	(20,000)	(4,999)	(4,999)
Dividends paid	(12,343)	(11,326)	(11,384)
Other	(1,173)	(953)	(793)
Net cash provided by (used in) financing activities	63,939	(22,946)	(28,455)
Effect of exchange rate changes on cash and cash equivalents	(924)	—	—
Net change in cash and cash equivalents	(19,322)	34,562	(25,299)
Cash and cash equivalents at beginning of the period	170,385	135,823	161,122
Cash and cash equivalents at end of the period	\$ 151,063	\$ 170,385	\$ 135,823

See accompanying notes.

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PRIMORIS SERVICES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Year Ended December 31,		
	2018	2017	2016
Cash paid:			
Interest	\$ 16,105	\$ 7,965	\$ 8,819
Income taxes, net of refunds received	\$ 14,246	\$ 25,984	\$ 8,624

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

	Year Ended December 31,		
	2018	2017	2016
Obligations incurred for the acquisition of property	\$ —	\$ 4,163	\$ —
Dividends declared and not yet paid	\$ 3,043	\$ 3,087	\$ 2,839

See accompanying notes.

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PRIMORIS SERVICES CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Dollars in thousands, except share and per share amounts

Note 1—Nature of Business

Organization and operations — Primoris Services Corporation is a holding company of various construction and product engineering subsidiaries. Our underground and directional drilling operations install, replace and repair natural gas, petroleum, telecommunications and water pipeline systems, including large diameter pipeline systems. Our industrial, civil and engineering operations build and provide maintenance services to industrial facilities including power plants, petrochemical facilities, and other processing plants; construct multi-level parking structures; and engage in the construction of highways, bridges and other environmental construction activities. Our transmission and distribution operations install, replace and repair gas and electric utility systems. We are incorporated in the State of Delaware, and our corporate headquarters are located at 2300 Field Street, Suite 1900, Dallas, Texas 75201. Unless specifically noted otherwise, as used throughout these consolidated financial statements, “Primoris”, “the Company”, “we”, “our”, “us” or “our” refers to the business, operations and financial results of the Company and its wholly-owned subsidiaries.

Reportable Segments — We segregate our business into five reportable segments: the Power, Industrial and Engineering (“Power”) segment, the Pipeline and Underground (“Pipeline”) segment, the Utilities and Distribution (“Utilities”) segment, the Transmission and Distribution (“Transmission”) segment, which is a new reportable segment created in connection with the acquisition of Willbros Group, Inc. (“Willbros”), and the Civil segment. See Note 13 – “Reportable Segments” for a brief description of the reportable segments and their operations.

The classification of revenue and gross profit for segment reporting purposes can at times require judgment on the part of management. Our segments may perform services across industries or perform joint services for customers in multiple industries. To determine reportable segment gross profit, certain allocations, including allocations of shared and indirect costs, such as facility costs, equipment costs and indirect operating expenses were made.

Acquisition of Willbros Group, Inc. — On June 1, 2018, we completed our acquisition of Willbros for approximately \$110.6 million, net of cash and restricted cash acquired. Willbros is a specialty energy infrastructure contractor serving the oil and gas and power industries through its utility transmission and distribution, oil and gas, and Canadian operations, which principally executes industrial and power projects. The utility transmission and distribution operations formed the Transmission segment, the oil and gas operations are included in the Pipeline segment, and the Canadian operations are included in the Power segment. See Note 4 — “Business Combinations”.

Other Acquisitions — On May 26, 2017, we acquired the net assets of Florida Gas Contractors (“FGC”) for \$37.7 million; on May 30, 2017, we acquired certain engineering assets for approximately \$2.3 million; and on June 16, 2017, we acquired the net assets of Coastal Field Services (“Coastal”) for \$27.5 million. FGC operations are included in the Utilities segment, the engineering assets are included in the Power segment, and Coastal operations are included in the Pipeline segment. On January 29, 2016, we acquired the net assets of Mueller Concrete Construction Company (“Mueller”) for \$4.1 million and on November 18, 2016, we acquired the net assets of Northern Energy & Power (“Northern”) for \$6.9 million. On June 24, 2016, we purchased property, plant and equipment from Pipe Jacking Unlimited, Inc. (“Pipe Jacking”), consisting of specialty directional drilling and tunneling equipment for \$13.4 million. We determined this purchase did not meet the definition of a business as defined under ASC 805, “Business Combinations”. Mueller operations are included in the Utilities segment, Northern operations are included in the Power segment, and Pipe Jacking operations are included in the Pipeline segment. See Note 4 — “Business Combinations”.

Joint Ventures — We own a 50% interest in two separate joint ventures, both formed in 2015. The Carlsbad Power Constructors joint venture (“Carlsbad”) is engineering and constructing a gas-fired power generation facility, and the “ARB Inc. & B&M Engineering Co.” joint venture (“Wilmington”) is also engineering and constructing a gas-fired power generation facility. Both projects are located in Southern California. The joint venture operations are included as part of the Power segment. As a result of determining that we are the primary beneficiary of the two variable interest

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entities (“VIEs”), the results of the Carlsbad and Wilmington joint ventures are consolidated in our financial statements. The Wilmington project was substantially complete as of December 31, 2017, and the Carlsbad project was substantially complete as of December 31, 2018. Financial information for the joint ventures is presented in Note 11— “Noncontrolling Interests”.

Seasonality — Our results of operations are subject to quarterly variations. Some of the variation is the result of weather, particularly rain, ice and snow, which can impact our ability to perform construction services. While the majority of our work is in the southern half of the United States, these seasonal impacts can affect revenue and profitability in all of our businesses since utilities defer routine replacement and repair during their period of peak demand. Any quarter can be affected either negatively or positively by atypical weather patterns in any part of the country. In addition, demand for new projects tends to be lower during the early part of the year due to clients’ internal budget cycles. As a result, we usually experience higher revenue and earnings in the third and fourth quarters of the year as compared to the first two quarters.

Variability —In addition to seasonality, we are also dependent on large construction projects which tend not to be seasonal, but can fluctuate from year to year based on general economic conditions. Our business may be affected by declines or delays in new projects or by client project schedules. Because of the cyclical nature of our business, the financial results for any period may fluctuate from prior periods, and our financial condition and operating results may vary from quarter to quarter. Results from one quarter may not be indicative of financial condition or operating results for any other quarter or for an entire year.

Note 2—Summary of Significant Accounting Policies

Basis of presentation —The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and the financial statement rules and regulations of the Securities and Exchange Commission (“SEC”). References for Financial Accounting Standards Board (“FASB”) standards are made to the FASB Accounting Standards Codification (“ASC”).

Principles of consolidation —The accompanying Consolidated Financial Statements include the accounts of Primoris, our wholly-owned subsidiaries and the noncontrolling interests of the Carlsbad and Wilmington joint ventures, which are VIEs for which we are the primary beneficiary as determined under the provisions of ASC 810, “Consolidation”. All intercompany balances and transactions have been eliminated in consolidation.

Reclassification —Certain previously reported amounts have been reclassified to conform to the current year presentation.

Use of estimates —The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. As a construction contractor, we use estimates for costs to complete construction projects and the contract value of certain construction projects. These estimates have a direct effect on gross profit as reported in these consolidated financial statements. Actual results could materially differ from our estimates.

Operating cycle — In the accompanying Consolidated Balance Sheets, assets and liabilities relating to long-term construction contracts (e.g. contract assets and contract liabilities) are considered current assets and current liabilities, since they are expected to be realized or liquidated in the normal course of contract completion, although completion may require more than one calendar year.

Consequently, we have significant working capital invested in assets that may have a liquidation period extending beyond one year. We have claims receivable and retention due from various customers and others that are currently in dispute, the realization of which is subject to binding arbitration, final negotiation or litigation, all of which may extend beyond one calendar year.

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Cash and cash equivalents —We consider all highly liquid investments with an original maturity of three months or less when purchased as cash equivalents.

Business combinations—Business combinations are accounted for using the acquisition method of accounting. We use the fair value of the assets acquired and liabilities assumed to account for the purchase price of businesses. The determination of fair value requires estimates and judgments of future cash flow expectations to assign fair values to the identifiable tangible and intangible assets. GAAP provides a “measurement period” of up to one year in which to finalize all fair value estimates associated with the acquisition of a business. Most estimates are preliminary until the end of the measurement period. During the measurement period, any material, newly discovered information that existed at the acquisition date would be reflected as an adjustment to the initial valuations and estimates. After the measurement period, any adjustments would be recorded as a current period income or expense.

Contingent Earnout Liabilities—As part of certain acquisitions, we agreed to pay cash to certain sellers upon meeting specific operating performance targets for specified periods subsequent to the acquisition date. Each quarter, we evaluate the fair value of the estimated contingency and record a non-operating charge for the change in the fair value. Upon meeting the target, we reflect the full liability on the balance sheet and record a charge to “Other income (expense), net” for the change in the fair value of the liability from the prior period. See Note 3 — “Fair Value Measurements” for further discussion.

Goodwill and other intangible assets—We account for goodwill in accordance with ASC 350, “Intangibles — Goodwill and Other”. Under ASC 350, goodwill is subject to an annual impairment test, which we perform as of the first day of the fourth quarter of each year, with more frequent testing if indicators of potential impairment exist. The impairment review is performed at the reporting unit level for those units with recorded goodwill. For the majority of our reporting units, we perform a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying value, including goodwill. Factors used in our qualitative assessment include, but are not limited to, macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and Company and reporting unit specific events. For all other reporting units, we use the two-step impairment test outlined in ASC 350. First, we compare the fair value of a reporting unit with its carrying amount. Fair value for the goodwill impairment test is determined utilizing a discounted cash flow analysis based on our financial plan discounted using our weighted average cost of capital and market indicators of terminal year cash flows. Other valuation methods may be used to corroborate the discounted cash flow method. If the carrying amount of a reporting unit is in excess of its fair value, goodwill is considered potentially impaired and further tests are performed to measure the amount of impairment loss. In the second step of the goodwill impairment test, we compare the implied fair value of reporting unit goodwill with the carrying amount of the reporting unit’s goodwill. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the carrying amount of goodwill less its implied fair value. The implied fair value of goodwill is determined in the same manner that the amount of goodwill recognized in a business combination was determined. We allocate the fair value of a reporting unit to all of the assets and liabilities of that unit, including intangible assets, as if the reporting unit had been acquired in a business combination. Any excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities represents the implied fair value of goodwill.

Income tax—Current income tax expense is the amount of income taxes expected to be paid for the financial results of the current year. A deferred tax liability or asset is established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities between GAAP and the tax codes. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. We provide for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards as set forth in ASC 740, “Income Taxes”. The difference between a tax position taken or expected to be taken on our income tax returns and the benefit recognized in our financial statements is referred to as an unrecognized tax benefit. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. We recognize accrued interest and penalties related to uncertain tax positions, if any, as a component of income tax expense.

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Staff Accounting Bulletin (“SAB”) 118 provides guidance on accounting for uncertainties of the effects of the Tax Cuts and Jobs Act (the “Tax Act”). Specifically, SAB 118 allowed companies to record provisional estimates of the impact of the Tax Act during a one year “measurement period” from the December 22, 2017 enactment date, similar to that used when accounting for business combinations. As a result of the Tax Act, we remeasured deferred tax assets and liabilities using the newly enacted tax rates and recorded a one-time net tax benefit of \$9.4 million as a provisional estimate under SAB 118 in the year ended December 31, 2017. As of December 31, 2018, our accounting for the Tax Act is complete. The provision for income taxes for the year ended December 31, 2018 includes a \$1.1 million increase from the completion of our provisional accounting for the effects of the Tax Act under SAB 118. The increase is due to \$0.6 million of additional expense associated with foreign tax credits, net of associated valuation allowances, and \$0.5 million of additional expense related to the corporate tax rate change impact on return-to-provision adjustments, primarily for depreciation.

Comprehensive income—We account for comprehensive income in accordance with ASC 220, “Comprehensive Income”, which specifies the computation, presentation and disclosure requirements for comprehensive income (loss). Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments, primarily from fluctuations in foreign currency exchange rates of our foreign subsidiaries with a functional currency other than the U.S. dollar.

Foreign operations—At December 31, 2018, we had operations in Canada with assets aggregating approximately \$45.1 million, compared to \$12.7 million at December 31, 2017. The Canadian operations had revenue of \$86.4 million and income before tax of \$2.4 million for the year ended December 31, 2018; revenue of \$8.3 million and a loss before tax of \$0.3 million for the year ended December 31, 2017, and revenue of \$11.2 million and income before tax of \$0.8 million for the year ended December 31, 2016. The increase in total assets and revenue as of and for the year ended December 31, 2018, is due to the Canadian operations acquired as part of the Willbros acquisition.

Functional currencies and foreign currency translation— For foreign operations where substantially all monetary transactions are in the local currency, we use the local currency as our functional currency. The effects of translating financial statements of foreign operations into our reporting currency are recognized as a cumulative translation adjustment, net of tax in “Accumulated other comprehensive income (loss)” in the Consolidated Statements of Stockholders’ Equity. For certain foreign operations where substantially all monetary transactions are made in United States dollars, we use the U.S. dollar as our functional currency, with gains or losses on translation recorded in income in the period in which they are incurred. Gains or losses on foreign currency transactions are recorded in income in the period in which they are incurred.

Partnerships and joint ventures — We are periodically a member of a partnership or a joint venture. These partnerships or joint ventures are used primarily for the execution of single contracts or projects. Our ownership can vary from a small noncontrolling ownership to a significant ownership interest. We evaluate each partnership or joint venture to determine whether the entity is considered a VIE as defined in ASC 810, “Consolidation”, and if a VIE, whether we are the primary beneficiary of the VIE, which would require us to consolidate the VIE with our financial statements. When consolidation occurs, we account for the interests of the other parties as a noncontrolling interest and disclose the net income attributable to noncontrolling interests. See Note 11 — “Noncontrolling Interests” for further

information.

Equity method of accounting— We account for our interest in an investment using the equity method of accounting per ASC 323, “Investments—Equity Method and Joint Ventures” if we are not the primary beneficiary of a VIE or do not have a controlling interest. The investment is recorded at cost and the carrying amount is adjusted periodically to recognize our proportionate share of income or loss, additional contributions made and dividends and capital distributions received. We record the effect of any impairment or an other than temporary decrease in the value of its investment.

In the event a partially owned equity affiliate were to incur a loss and our cumulative proportionate share of the loss exceeded the carrying amount of the equity method investment, application of the equity method would be suspended and our proportionate share of further losses would not be recognized unless we committed to provide further financial support to the affiliate. We would resume application of the equity method once the affiliate became profitable

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and our proportionate share of the affiliate's earnings equals our cumulative proportionate share of losses that were not recognized during the period the application of the equity method was suspended.

Cash concentration—We place our cash in demand deposit accounts and short-term U.S. Treasury bonds. At December 31, 2018 and 2017, we had cash balances of \$151.1 million and \$170.4 million, respectively. Our cash balances are held in high credit quality financial institutions in order to mitigate the risk of holding funds not backed by the federal government or in excess of federally backed limits. Cash balances associated with VIEs, which totaled \$3.1 million and \$60.3 million as of December 31, 2018 and December 31, 2017, respectively, are not available for general corporate purposes.

Collective bargaining agreements—Approximately 46.7% of our hourly employees, primarily consisting of field laborers, were covered by collective bargaining agreements in 2018. Upon renegotiation of such agreements, we could be exposed to increases in hourly costs and work stoppages. Of the 111 collective bargaining agreements to which we are a party to, 93 will require renegotiation during 2019. We have not had a significant work stoppage in more than 20 years.

Multiemployer plans — Various subsidiaries are signatories to collective bargaining agreements. These agreements require that we participate in and contribute to a number of multiemployer benefit plans for our union employees at rates determined by the agreements. The trustees for each multiemployer plan determine the eligibility and allocations of contributions and benefit amounts, determine the types of benefits and administer the plan. Federal law requires that if we were to withdraw from an agreement, we would incur a withdrawal obligation. The potential withdrawal obligation may be significant. In accordance with GAAP, any withdrawal liability would be recorded when it is probable that a liability exists and can be reasonably estimated. In November 2011, we withdrew from the Central States Southeast and Southwest Areas Pension Fund multiemployer pension plan, as discussed in Note 12 — “Commitments and Contingencies”. We have no plans to withdraw from any other agreements.

Insurance—We self-insure worker's compensation, general liability, and auto insurance up to \$0.25 million per claim. We maintained a self-insurance reserve totaling \$42.8 million and \$29.4 million at December 31, 2018 and 2017, respectively. Claims administration expenses are charged to current operations as incurred. Our accruals are based on judgment and the probability of losses, with the assistance of third-party actuaries. Actual payments that may be made in the future could materially differ from such reserves.

Derivative instruments and hedging activities — We recognize all derivative instruments as either assets or liabilities on the balance sheet at their respective fair values. Our use of derivatives consists of an interest rate swap agreement. The interest rate swap agreement was entered into to improve the predictability of cash flows from interest payments related to variable rate debt for the duration of the term loan. The interest rate swap matures in July 2023 and is not designated as a hedge for accounting purposes. Therefore, the change in the fair value of the derivative asset or liability is reflected in net income in the Consolidated Statements of Income (mark-to-market accounting). Cash flows from derivatives settled are reported as cash flow from operating activities.

Accounts receivable—Accounts receivable and contract receivables are primarily with public and private companies and governmental agencies located in the United States. Credit terms for payment of products and services are extended to customers in the normal course of business. Contract receivables are generally progress billings on projects, and as a result, are short term in nature. Generally, we require no collateral from our customers, but file statutory liens or stop notices on any construction projects when collection problems are anticipated. While a project is underway, we estimate the collectability of contract amounts at the same time that we estimate project costs. As discussed in Note 5 — “Revenue”, realization of the eventual cash collection may be recognized as adjustments to the contract revenue and profitability, otherwise, we use the specific identification method of accounting for losses from uncollectible accounts. Under this method an allowance is recorded based upon historical experience and management’s evaluation of outstanding contract receivables at the end of each year. Receivables are written off in the period deemed uncollectible. The allowance for doubtful accounts at December 31, 2018 and 2017 was \$1.7 million and \$0.5 million, respectively.

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Significant revision in contract estimates — We recognize revenue over time for firm fixed-price contracts. Under this method, the costs incurred to date as a percentage of total estimated costs are used to calculate revenue. Total estimated costs, and thus contract revenue and margin, are impacted by many factors, which can cause significant changes in estimates during the life cycle of a project.

For projects that were in process at the end of the prior year, there can be a difference in revenue and profit that would have been recognized in the prior year, had current year estimates of costs to complete been known at the end of the prior year.

The following table presents the approximate financial impact of the changes in estimates that would have been reflected in the prior years had the revised estimates been applied to the particular year (in thousands):

	Net impact of change in estimate for the years ended December 31,		
	2018	2017	2016
Revised estimates in 2018 that impact 2017	\$ (16,242)	\$ 16,242	\$ —
Revised estimates in 2017 that impact 2016	—	6,435	(6,435)
Revised estimates in 2016 that impact 2015	—	—	1,685
Net impact to gross margin	\$ (16,242)	\$ 22,677	\$ (4,750)
EPS impact to year	\$ (0.16)	\$ 0.24	\$ (0.05)

During 2018, we collected a disputed receivable related to a project completed in 2014, which resulted in recognizing revenue of approximately \$18.1 million and gross profit of approximately \$17.4 million.

During the third quarter of 2016, we settled a dispute with a customer on collection of a receivable of \$17.9 million, receiving \$38.0 million in cash, which resulted in recognizing revenue of approximately \$27.5 million and gross profit of approximately \$26.7 million in the third quarter of 2016.

In October 2016, we announced that we planned to divest our Texas heavy civil business unit, which operates as a division of Primoris Heavy Civil. We engaged a financial advisor to assist in the marketing and sale of the business unit, and planned to continue operating the business unit until completion of a sale. As a result of the planned divestiture, we recorded a charge of \$37.3 million during the third quarter of 2016. This charge includes a reduction of the expected profitability of certain projects in the Belton, Texas area for the division and a reduction of costs and estimated earnings in excess of billings and an increase to the reserve for anticipated job losses. In April 2017, the Board of Directors determined that based on the information available, we would attain the best long-term value by withdrawing from the sales process and continuing to operate the business unit.

The settlement of the disputed projects and the charge related to the planned divestiture were not included in the table above.

Customer concentration — We operate in multiple industry segments encompassing the construction of commercial, industrial and public works infrastructure assets primarily throughout the United States. Typically, the top ten customers in any one calendar year generate revenue in excess of 50.0% of total revenue; however, the group that comprise the top ten customers varies from year to year. See Note 14 — “Customer Concentrations” for further discussion.

Property and equipment—Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, usually ranging from three to thirty years. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in operating income.

We assess the recoverability of property and equipment whenever events or changes in business circumstances indicate that the carrying amount of the asset may not be fully recoverable. We perform an analysis to determine if an

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impairment exists. The amount of property and equipment impairment, if any, is measured based on fair value and is charged to operations in the period in which the impairment is determined by management. For the years ended December 31, 2018, 2017, and 2016, our management has not identified any material impairment of its property and equipment.

Taxes collected from customers—Sales and use taxes collected from our customers are recorded on a net basis.

Share-based payments and stock-based compensation—In May 2013, the shareholders approved and we adopted the Primoris Services Corporation 2013 Long-term Incentive Equity Plan (“Equity Plan”). Detailed discussion of shares issued under the Equity Plan are included in Note 17 — “Deferred Compensation Agreements and Stock-Based Compensation” and in Note 21—“Stockholders’ Equity”. Such share issuances include grants of Restricted Stock Units to executives, issuance of stock to certain senior managers and executives and issuances of stock to non-employee members of the Board of Directors.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”, with several clarifying updates issued during 2016 and 2017. The new standard is effective for reporting periods beginning after December 15, 2017 and supersedes all prior revenue recognition standards including the guidance in ASC 605, “Revenue Recognition”. Under Topic 606, revenue recognition occurs when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled to in exchange for those goods or services. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. See Note 5 — “Revenue” for further details.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. In July 2018, the FASB issued two updates to ASU 2016-02, ASU 2018-10, “Codification Improvements to Topic 842, Leases”, and ASU 2018-11, “Leases (Topic 842): Targeted Improvements”. ASU 2016-02 requires recognition of operating leases with lease terms of more than twelve months on the balance sheet as both assets for the rights and liabilities for the obligations created by the leases. The ASU also requires disclosures that provide qualitative and quantitative information for the lease assets and liabilities recorded in the financial statements. The standard is effective for fiscal years beginning after December 15, 2018, and initially required a modified retrospective transition method where a company applies the new lease standard at the beginning of the earliest period presented in the financial statements. ASU 2018-11 added an optional transition method where a company applies the new leases standard at the adoption date and recognizes a cumulative effect adjustment to the opening balance of retained earnings.

We adopted the new standard as of January 1, 2019, and elected certain transition practical expedients permitted with the new standard, which among other things, allowed us to carryforward the historical lease classification. In addition,

we elected the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We also made an accounting policy election that keeps leases with an initial term of 12 months or less off of the balance sheet and results in recognizing those lease payments in the Consolidated Statements of Income on a straight-line basis over the lease term.

The adoption of the ASU resulted in the recognition of right of use assets as of January 1, 2019, of approximately \$133.3 million, which includes the reclassification of previously recognized lease impairment and accrued lease liabilities. The adoption of the ASU resulted in the recognition of lease liabilities as of January 1, 2019, of approximately \$140.9 million. The reduction to retained earnings was approximately \$0.8 million, net of the reversal of previously recognized lease impairment and accrued lease liabilities. We do not believe the ASUs will materially affect our consolidated net income. Additionally, the ASUs will have no impact on our debt covenant compliance as we have already revised our credit agreements to address the impact of the ASUs.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230)”, which requires a reporting entity to include restricted cash and restricted cash equivalents in its cash and cash-equivalent balances presented in the entity’s statement of cash flows. A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the balance sheet includes more than one line item for cash, cash

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equivalents, restricted cash and restricted cash equivalents. Transfers between non-restricted and restricted cash should not be presented as cash flow activities in the statement of cash flows. Furthermore, an entity with a material restricted cash balance must disclose information regarding the nature of the restrictions. ASU 2016-18 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual reporting periods. We adopted the ASU as of January 1, 2018, and it did not have a material impact on our Consolidated Statements of Cash Flows.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business", which changes the definition of a business to assist entities with evaluating when a set of acquired assets and activities is a business. ASU 2017-01 requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. ASU 2017-01 is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted the ASU as of January 1, 2018, and it did not impact the determination of our business combinations.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment". ASU 2017-04 removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2019 and will be applied prospectively. We do not expect the adoption of ASU 2017-04 to have an impact on our financial position, results of operations, or cash flows.

In May 2017, the FASB issued ASU 2017-09, "Compensation — Stock Compensation (Topic 718) — Scope of Modification Accounting". The ASU amends the scope of modification accounting for share-based payment arrangements. The amendments in the ASU clarify when to account for a change in the terms or conditions of share-based payment awards as a modification under ASC 718, "Compensation — Stock Compensation". The ASU is effective for interim and annual reporting periods beginning after December 15, 2017. We adopted the ASU as of January 1, 2018, and it did not have a material impact on our consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118". The ASU added guidance previously issued by the SEC in SAB 118 to ASC 740, "Income Taxes". SAB 118 was issued by the SEC in December 2017 to provide guidance for accounting implications of U.S. tax reform under the Tax Cuts and Jobs Act (the "Tax Act"). Specifically, SAB 118 allowed companies to record provisional estimates of the impact of the Tax Act during a one year "measurement period" from the December 22, 2017 enactment date similar to that used when accounting for business combinations. We have evaluated the potential impacts of SAB 118 and have applied this guidance to our consolidated financial statements and related disclosures beginning in the fourth quarter of our fiscal year 2017. See Note 19 — "Income Taxes" for additional information on SAB 118 and the impacts of the Tax Act.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”, which eliminates certain disclosure requirements for recurring and nonrecurring fair value measurements. The ASU eliminates such disclosures as the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and adds new disclosure requirements for Level 3 measurements. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. We are currently evaluating the impact this ASU will have on our disclosures.

Other new pronouncements issued but not effective until after December 31, 2018 are not expected to have a material impact on our consolidated results of operations, financial position or cash flows.

Note 3—Fair Value Measurements

ASC 820, “Fair Value Measurements and Disclosures” defines fair value, establishes a framework for measuring fair value in GAAP and requires certain disclosures about fair value measurements. ASC 820 addresses fair

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value GAAP for financial assets and financial liabilities that are remeasured and reported at fair value at each reporting period and for non-financial assets and liabilities that are remeasured and reported at fair value on a non-recurring basis.

In general, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are “unobservable data points” for the asset or liability and include situations where there is little, if any, market activity for the asset or liability.

The following table presents, for each of the fair value hierarchy levels identified under ASC 820, our financial assets and certain liabilities that are required to be measured at fair value at December 31, 2018 and 2017 (in thousands):

	Fair Value Measurements at Reporting Date		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets as of December 31, 2018:			
Cash and cash equivalents	\$ 151,063	\$ —	\$ —
Liabilities as of December 31, 2018:			
Interest rate swap	\$ —	\$ 2,829	\$ —
Assets as of December 31, 2017:			
Cash and cash equivalents	\$ 170,385	\$ —	\$ —
Liabilities as of December 31, 2017:			
Contingent consideration	\$ —	\$ —	\$ 716

Other financial instruments not listed in the table consist of accounts receivable, accounts payable and certain accrued liabilities. These financial instruments generally approximate fair value based on their short-term nature. The carrying value of our long-term debt approximates fair value based on comparison with current prevailing market rates for loans of similar risks and maturities.

The interest rate swap is measured at fair value using the income approach, which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations primarily utilize indirectly observable inputs, including contractual terms, interest rates and yield curves observable at commonly quoted intervals. See Note 10 – “Derivative Instruments” for additional information.

The following table provides changes to our contingent consideration liability Level 3 fair value measurements during the years ended December 31, 2018 and 2017 (in thousands):

Contingent Consideration Liability	Significant Unobservable Inputs (Level 3)	
	2018	2017
Beginning balance, January 1,	\$ 716	\$ —
FGC acquisition	—	1,200
Change in fair value of contingent consideration liability during year	753	(484)
Payment of earn-out liability to FGC sellers	(1,469)	—
Ending balance, December 31,	\$ —	\$ 716

On a quarterly basis, we assess the estimated fair value of the contractual obligation to pay the contingent consideration and any changes in estimated fair value are recorded as a non-operating charge in our Statement of Income. Fluctuations in the fair value of contingent consideration are impacted by two unobservable inputs, management's estimate of the probability (which has ranged from 33% to 100%) of the acquired company meeting the contractual operating performance target and the estimated discount rate (a rate that approximates our cost of capital). Significant changes in either of those inputs in isolation would result in a different fair value measurement. Generally,

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change in the assumption of the probability of meeting the performance target is accompanied by a directionally similar change in the fair value of contingent consideration liability, whereas a change in assumption of the estimated discount rate is accompanied by a directionally opposite change in the fair value of contingent consideration liability.

Upon meeting the target, we reflect the full liability on the balance sheet and record a charge to “Other income (expense), net” for the change in the fair value of the liability from the prior period.

The May 2017 acquisition of Florida Gas Contractors included an earnout of \$1.5 million payable in May 2018, contingent upon meeting certain performance targets. The estimated fair value of the contingent consideration on the acquisition date was \$1.2 million. Under ASC 805, “Business Combinations”, we are required to estimate the fair value of contingent consideration based on facts and circumstances that existed as of the acquisition date and remeasure to fair value at each reporting date until the contingency is resolved. As a result of that remeasurement, we reduced the fair value of the contingent consideration in the fourth quarter of 2017 related to the FGC performance target contemplated in their purchase agreement, and decreased the liability by \$0.5 million with a corresponding increase in Other income (expense), net. During the second quarter of 2018, we increased the fair value of the contingent consideration related to the FGC, and increased the liability by \$0.8 million with a corresponding decrease in Other income (expense), net. We paid the full \$1.5 million liability in the third quarter of 2018.

Note 4—Business Combinations

2018 Acquisition

Acquisition of Willbros Group, Inc.

On June 1, 2018, we acquired all of the outstanding common stock of Willbros, a specialty energy infrastructure contractor serving the oil and gas and power industries for approximately \$110.6 million, net of cash and restricted cash acquired. The total purchase price was funded through a combination of existing cash balances and borrowings under our revolving credit facility.

The tables below represent the purchase consideration and preliminary estimated fair values of the assets acquired and liabilities assumed. Significant changes since our initial estimates reported in the second quarter of 2018 primarily relate to fair value adjustments to our acquired contracts, which resulted in an increase to contract liabilities of \$19.6 million. In addition, fair value adjustments to our acquired insurance liabilities and lease obligations reduced our liabilities assumed by approximately \$9.3 million and \$8.0 million, respectively. As a result of these and other adjustments to the initial estimated fair values of the assets acquired and liabilities assumed, goodwill increased by

approximately \$9.1 million since the second quarter of 2018. Adjustments recorded to the estimated fair values of the assets acquired and liabilities assumed are recognized in the period in which the adjustments are determined and calculated as if the accounting had been completed as of the acquisition date.

The final determination of fair value for certain assets and liabilities is subject to further change and will be completed as soon as the information necessary to complete the analysis is obtained. These amounts, which may differ materially from these preliminary estimates, will continue to be refined and will be finalized as soon as possible, but no later than one year from the acquisition date. The primary areas of the preliminary estimates that are not yet finalized relate to property, plant and equipment, contract assets and liabilities, leases, deferred income taxes, uncertain tax positions, and the fair value of certain contractual obligations.

Purchase consideration (in thousands)	
Total purchase consideration	\$ 164,758
Less cash and restricted cash acquired	(54,138)
Net cash paid	110,620

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Preliminary identifiable assets acquired and liabilities assumed (in thousands)	
Cash and restricted cash	\$ 54,138
Accounts receivable	102,719
Contract assets	30,762
Other current assets	18,712
Property, plant and equipment	30,522
Intangible assets:	
Customer relationships	47,500
Tradename	200
Deferred income taxes	24,017
Other non-current assets	2,261
Accounts payable and accrued liabilities	(114,088)
Contract liabilities	(63,902)
Other non-current liabilities	(20,868)
Total identifiable net assets	111,973
Goodwill	52,785
Total purchase consideration	\$ 164,758

We separated the operations of Willbros among two of our existing segments, and created a new segment for the utility transmission and distribution operations called the Transmission segment. The oil and gas operations are included in the Pipeline segment, and the Canadian operations are included in the Power segment. Goodwill associated with the Willbros acquisition principally consists of expected benefits from the expansion of our services into electric utility-focused offerings and the expansion of our geographic presence. Goodwill also includes the value of the assembled workforce. We allocated \$50.5 million of goodwill to the Transmission segment, \$1.5 million to the Power segment, and \$0.8 million to the Pipeline segment. Based on the current tax treatment, goodwill is not expected to be deductible for income tax purposes.

As part of the Willbros acquisition, we acquired approximately \$40.2 million of restricted cash that was pledged by Willbros to secure letters of credit. Subsequent to the acquisition, we issued new letters of credit under our Credit Facility to replace the Willbros letters of credit secured by the restricted cash. As of December 31, 2018, substantially all of the restricted cash had been released.

For the period June 1, 2018, the acquisition date, to December 31, 2018, Willbros contributed revenue of \$400.8 million and gross profit of \$39.5 million.

For the year ended December 31, 2018, costs related to the acquisition of Willbros were \$13.2 million and are included in "Merger and related costs" on the Consolidated Statements of Income. Such costs primarily consisted of severance and retention bonus costs for certain employees of Willbros, professional fees paid to advisors, and exiting or impairing certain duplicate facilities.

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2017 Acquisitions

Acquisition of Florida Gas Contractors

On May 26, 2017, we acquired certain assets of FGC, a utility contractor specializing in underground natural gas infrastructure, for approximately \$33.0 million in cash. In addition, the sellers could receive a contingent earnout amount of up to \$1.5 million over a one-year period ending May 26, 2018, based on the achievement of certain operating targets. The estimated fair value of the potential contingent consideration on the acquisition date was \$1.2 million. FGC operates in the Utilities segment and expands our presence in the Florida and Southeast markets. The purchase was accounted for using the acquisition method of accounting. During the fourth quarter of 2017, we finalized the estimate of fair value of the acquired assets of FGC, which included \$4.8 million of fixed assets; \$3.3 million of working capital; \$9.1 million of intangible assets; and \$17.0 million of goodwill. In connection with the FGC acquisition, we also paid \$3.5 million to acquire certain land and buildings. Intangible assets primarily consist of customer relationships. Goodwill associated with the FGC acquisition principally consists of expected benefits from providing expertise for our construction efforts in the underground utility business as well as the expansion of our geographic presence. Goodwill also includes the value of the assembled workforce that FGC provides to us. Based on the current tax treatment, goodwill will be deductible for income tax purposes over a fifteen-year period.

For the year ended December 31, 2018, FGC contributed revenue of \$31.3 million and gross profit of \$7.6 million. From the acquisition date through December 31, 2017, FGC contributed revenue of \$15.5 million and gross profit of \$3.8 million.

Acquisition of Engineering Assets

On May 30, 2017, we acquired certain engineering assets for approximately \$2.3 million in cash which further enhances our ability to provide quality service for engineering and design projects. The purchase was accounted for using the acquisition method of accounting. The identifiable assets acquired consisted of \$0.2 million of fixed assets and \$2.1 million of intangible assets. Intangible assets primarily consist of customer relationships. The operations of this acquisition were fully integrated into our Power segment operations and no separate financial results were maintained. Therefore, it is impracticable for us to report the amounts of revenue and gross profit included in the Consolidated Statements of Income.

Acquisition of Coastal Field Services

On June 16, 2017, we acquired certain assets and liabilities of Coastal for approximately \$27.5 million in cash. Coastal provides pipeline construction and maintenance, pipe and vessel coating and insulation, and integrity support services for companies in the oil and gas industry. Coastal operates in the Pipeline segment and increases our market share in the Gulf Coast energy market. The purchase was accounted for using the acquisition method of accounting. During the second quarter of 2018, we finalized the estimate of the fair value of the acquired assets, which included \$4.0 million of fixed assets; \$4.6 million of working capital; \$9.9 million of intangible assets; \$9.3 million of goodwill; and \$0.3 million of long-term capital leases. Intangible assets primarily consist of customer relationships and tradename. Goodwill associated with the Coastal acquisition principally consists of expected benefits from providing expertise for our expansion of services in the pipeline construction and maintenance business. Goodwill also includes the value of the assembled workforce that Coastal provides to us. Based on the current tax treatment, goodwill will be deductible for income tax purposes over a fifteen-year period.

For the year ended December 31, 2018, Coastal contributed revenue of \$14.1 million and gross profit of \$1.4 million. From the acquisition date through December 31, 2017, Coastal contributed revenue of \$17.9 million and gross profit of \$3.2 million.

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The following table represents the identifiable assets acquired and liabilities assumed related to the 2017 acquisitions described above (in thousands):

Accounts receivable	\$ 10,721
Contract assets	580
Other current assets	2,352
Property, plant and equipment	12,402
Intangible assets	21,125
Goodwill	26,269
Accounts payable and accrued liabilities	(5,476)
Contract liabilities	(447)
Total	\$ 67,526

2016 Acquisitions

On January 29, 2016, we acquired certain assets and liabilities of Mueller Concrete Construction Company for \$4.1 million. The purchase was accounted for using the acquisition method of accounting. During the second quarter of 2016, we finalized the estimate of fair value of the acquired assets of Mueller, which included \$2.0 million of fixed assets, \$2.0 million of goodwill and \$0.1 million of inventory. Mueller operates within the Utilities segment. Goodwill largely consists of expected benefits from providing foundation expertise for our construction efforts in underground line work, substations and telecom/fiber. Goodwill also includes the value of the assembled workforce that Mueller provides to our business. Based on the current tax treatment, goodwill will be deductible for income tax purposes over a fifteen-year period. The operations of Mueller were fully integrated into our operations and no separate financial results were maintained. Therefore, it is impracticable for us to report the amounts of revenue and gross profit included in the Consolidated Statements of Income.

On November 18, 2016, we acquired certain assets and liabilities of Northern Energy & Power for \$6.9 million. Northern operates in the Power segment and serves the renewable energy sector with a specific focus on solar photovoltaic installations in the United States. The purchase was accounted for using the acquisition method of accounting. During the second quarter of 2017, we finalized our estimated fair value of the acquired assets of Northern, which resulted in a \$0.1 million reduction in goodwill compared to amounts previously recorded. The allocation of the total purchase price included \$3.0 million of intangible assets, \$3.7 million of goodwill and \$0.1 million of fixed assets. Intangible assets consist of customer relationships. Goodwill is derived from the expected benefits of services in the renewable energy sector with a specific focus on Solar Photovoltaic installations in the United States. Goodwill also includes the value of the assembled workforce that Northern provides to our business. Based on the current tax treatment, goodwill will be deductible for income tax purposes over a fifteen-year period. For the year ended December 31, 2018, Northern contributed revenue of \$44.5 million and gross profit of (\$1.2) million. For the year ended December 31, 2017, Northern contributed revenue of \$19.1 million and gross profit of \$1.1 million. From the acquisition date through December 31, 2016, Northern contributed revenue of \$2.0 million

and gross profit of \$0.6 million.

The following table represents the identifiable assets acquired and liabilities assumed related to the 2016 acquisitions described above (in thousands):

Accounts receivable	\$ 1,606
Other current assets	64
Property, plant and equipment	2,133
Intangible assets	3,000
Goodwill	5,660
Accounts payable and accrued liabilities	(1,587)
Total	\$ 10,876

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2016 Asset Acquisition

On June 24, 2016, we purchased property, plant and equipment from Pipe Jacking Unlimited, Inc., consisting of specialty directional drilling and tunneling equipment for \$13.4 million in cash. We determined this purchase did not meet the definition of a business as defined under ASC 805, "Business Combinations". The estimated fair value of the equipment was equal to the purchase price. We believe the purchase of the equipment will aid in our pipeline construction projects and enhance the work provided to our utility clients. Pipe Jacking equipment is included in the Pipeline segment.

Supplemental Unaudited Pro Forma Information

The following pro forma information for the twelve months ended December 31, 2018 and 2017 presents our results of operations as if the Willbros acquisition and the 2017 acquisitions of FGC and Coastal had occurred at the beginning of 2017. The supplemental pro forma information has been adjusted to include:

- the pro forma impact of amortization of intangible assets and depreciation of property, plant and equipment;
- the pro forma impact of the expense associated with the amortization of the discount for the fair value of the contingent consideration liability associated with the FGC acquisition;
- the pro forma impact of nonrecurring merger and related costs directly attributable to the acquisitions;
- the pro forma impact of interest expense relating to the acquisitions; and
- the pro forma tax effect of both the income before income taxes and the pro forma adjustments, calculated using a tax rate of 28.0% and 40.0% for the years ended December 31, 2018 and 2017, respectively.

The pro forma results are presented for illustrative purposes only and are not necessarily indicative of, or intended to represent, the results that would have been achieved had the various acquisitions been completed on January 1, 2017. For example, the pro forma results do not reflect any operating efficiencies and associated cost savings that we might have achieved with respect to the acquisitions (in thousands):

Year Ended December 31,	
2018	2017
(unaudited)	(unaudited)

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Revenue	\$ 3,265,690	\$ 3,256,045
Income before provision for income taxes	\$ 107,657	\$ 14,813
Net income attributable to Primoris	\$ 73,356	\$ 18,072

Weighted average common shares outstanding:

Basic	51,350	51,481
Diluted	51,670	51,741

Earnings per share:

Basic	\$ 1.43	\$ 0.35
Diluted	\$ 1.42	\$ 0.35

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Note 5—Revenue

On January 1, 2018, we adopted ASC 606, “Revenue from Contracts with Customers” using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. In adopting ASC 606, we changed our accounting policy for revenue recognition. Results for periods prior to January 1, 2018 are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, “Revenue Recognition”. The cumulative impact of adopting ASC 606 was immaterial and did not require an adjustment to retained earnings. However, we reclassified prior year balance sheet and cash flow amounts to conform to current year presentation.

We generate revenue under a range of contracting types, including fixed-price, unit-price, time and material, and cost reimbursable plus fee contracts. A substantial portion of our revenue is derived from contracts that are fixed-price or unit-price and is recognized over time as work is completed because of the continuous transfer of control to the customer (typically using an input measure such as costs incurred to date relative to total estimated costs at completion to measure progress). For time and material and cost reimbursable plus fee contracts, revenue is recognized primarily on an input basis, based on contract costs incurred as defined within the respective contracts. Costs to obtain contracts are generally not significant and are expensed in the period incurred.

We evaluate whether two or more contracts should be combined and accounted for as one single performance obligation and whether a single contract should be accounted for as more than one performance obligation. ASC 606 defines a performance obligation as a contractual promise to transfer a distinct good or service to a customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our evaluation requires significant judgment and the decision to combine a group of contracts or separate a contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and, therefore, is not distinct. However, occasionally we have contracts with multiple performance obligations. For contracts with multiple performance obligations, we allocate the contract’s transaction price to each performance obligation using the observable standalone selling price, if available, or alternatively our best estimate of the standalone selling price of each distinct performance obligation in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach for each performance obligation.

As of December 31, 2018, we had \$1.58 billion of remaining performance obligations. We expect to recognize approximately 71% of our remaining performance obligations as revenue during the next four quarters and substantially all of the remaining balance in 2020.

Accounting for long-term contracts involves the use of various techniques to estimate total transaction price and costs. For long-term contracts, transaction price, estimated cost at completion and total costs incurred to date are used to calculate revenue earned. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular contract. Total estimated costs, and thus contract revenue and income, can be impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project's completion, and thus the timing of revenue recognition. To the extent that original cost estimates are modified, estimated costs to complete increase, delivery schedules are delayed, or progress under a contract is otherwise impeded, cash flow, revenue recognition and profitability from a particular contract may be adversely affected.

The nature of our contracts gives rise to several types of variable consideration, including contract modifications (change orders and claims), liquidated damages, volume discounts, performance bonuses, incentive fees, and other terms that can either increase or decrease the transaction price. We estimate variable consideration as the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent we believe we have an enforceable right, and it is probable that a significant reversal of cumulative revenue recognized will not occur. Our estimates of variable consideration and the determination of whether to include estimated amounts in the

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transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us at this time.

Contract modifications result from changes in contract specifications or requirements. We consider unapproved change orders to be contract modifications for which customers have not agreed to both scope and price. We consider claims to be contract modifications for which we seek, or will seek, to collect from customers, or others, for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers. Claims can also be caused by non-customer-caused changes, such as rain or other weather delays. Costs associated with contract modifications are included in the estimated costs to complete the contracts and are treated as project costs when incurred. In most instances, contract modifications are for goods or services that are not distinct, and, therefore, are accounted for as part of the existing contract. The effect of a contract modification on the transaction price, and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis. In some cases, settlement of contract modifications may not occur until after completion of work under the contract.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the cumulative impact of the profit adjustment is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. In the year ended December 31, 2018, revenue recognized from performance obligations satisfied in previous periods was \$30.6 million. If at any time the estimate of contract profitability indicates an anticipated loss on a contract, the projected loss is recognized in full, including any previously recognized profit, in the period it is identified and recognized as an “accrued loss provision” which is included in “Contract liabilities” on the Consolidated Balance Sheets. For contract revenue recognized over time, the accrued loss provision is adjusted so that the gross profit for the contract remains zero in future periods.

At December 31, 2018, we had approximately \$92.8 million of unapproved contract modifications included in the aggregate transaction prices. These unapproved contract modifications were in the process of being negotiated in the normal course of business. Approximately \$83.3 million of the unapproved contract modifications had been recognized as revenue on a cumulative catch-up basis through December 31, 2018.

In all forms of contracts, we estimate the collectability of contract amounts at the same time that we estimate project costs. If we anticipate that there may be issues associated with the collectability of the full amount calculated as the transaction price, we may reduce the amount recognized as revenue to reflect the uncertainty associated with realization of the eventual cash collection. For example, when a cost reimbursable project exceeds the client’s expected budget amount, the client frequently requests an adjustment to the final amount. Similarly, some utility clients reserve the right to audit costs for significant periods after performance of the work.

The timing of when we bill our customers is generally dependent upon agreed-upon contractual terms, milestone billings based on the completion of certain phases of the work, or when services are provided. Sometimes, billing occurs subsequent to revenue recognition, resulting in unbilled revenue, which is a contract asset. Also, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in deferred revenue, which is a contract liability.

The caption “Contract assets” in the Consolidated Balance Sheets represents the following:

- unbilled revenue (formerly costs and estimated earnings in excess of billings), which arise when revenue has been recorded but the amount will not be billed until a later date;
- retainage amounts for the portion of the contract price earned by us for work performed, but held for payment by the customer as a form of security until we reach certain construction milestones; and
- contract materials for certain job specific materials not yet installed, which are valued using the specific identification method relating the cost incurred to a specific project.

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Contract assets consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Unbilled revenue	\$ 249,577	\$ 160,092
Retention receivable	88,953	66,586
Contract materials (not yet installed)	25,715	39,224
	\$ 364,245	\$ 265,902

Contract assets increased by \$98.3 million compared to December 31, 2017 due primarily to a \$30.8 million increase from the acquisition of Willbros in the second quarter of 2018 and higher unbilled revenue from our legacy operations.

The caption “Contract liabilities” in the Consolidated Balance Sheets represents deferred revenue (formerly billings in excess of costs and estimated earnings) on billings in excess of contract revenue recognized to date, and the accrued loss provision.

Contract liabilities consist of the following (in thousands):

	December 31, 2018	December 31, 2017
Deferred revenue	\$ 182,232	\$ 159,310
Accrued loss provision	7,307	10,067
	\$ 189,539	\$ 169,377

Contract liabilities increased by \$20.2 million compared to December 31, 2017 primarily due to a \$63.9 million increase from the acquisition of Willbros in the second quarter of 2018, partially offset by lower deferred revenue from our legacy operations, including a \$17.9 million reduction in deferred revenue from the settlement of the disputed receivable discussed in Note 12 – “Commitments and Contingencies”.

Revenue recognized for the year ended December 31, 2018, that was included in the contract liability balance at December 31, 2017 was approximately \$159.4 million.

The following tables present our revenue disaggregated into various categories.

Master Service Agreements (“MSA”) and Non-MSA revenue was as follows (in thousands):

Segment	For the year ended December 31, 2018		
	MSA	Non-MSA	Total
Power	\$ 141,193	\$ 552,855	\$ 694,048
Pipeline	47,143	543,794	590,937
Utilities	699,998	202,774	902,772
Transmission	240,228	46,521	286,749
Civil	—	464,972	464,972
Total	\$ 1,128,562	\$ 1,810,916	\$ 2,939,478

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Revenue by contract type was as follows (in thousands):

Segment	For the year ended December 31, 2018			Total
	Fixed-price	Unit-price	Cost reimbursable (1)	
Power	\$ 393,555	\$ 45,339	\$ 255,154	\$ 694,048
Pipeline	107,519	58,651	424,767	590,937
Utilities	184,649	460,122	258,001	902,772
Transmission	48,679	230,077	7,993	286,749
Civil	69,398	345,510	50,064	464,972
Total	\$ 803,800	\$ 1,139,699	\$ 995,979	\$ 2,939,478

(1) Includes time and material and cost reimbursable plus fee contracts.

Each of these contract types has a different risk profile. Typically, we assume more risk with fixed-price contracts. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular fixed-price contract. However, these types of contracts offer additional profits when we complete the work for less cost than originally estimated. Unit-price and cost reimbursable contracts generally subject us to lower risk. Accordingly, the associated fees are usually lower than fees earned on fixed-price contracts. Under these contracts, our profit may vary if actual costs vary significantly from the negotiated rates.

Note 6—Property and Equipment

The following is a summary of property and equipment at December 31 (in thousands):

	2018	2017	Useful Life
Land and buildings	\$ 101,170	\$ 82,755	Buildings 30 Years
Leasehold improvements	13,438	12,601	Various*
Office equipment	9,669	8,888	3 - 5 Years
Construction equipment	439,875	392,454	3 - 7 Years
Transportation equipment	112,170	101,855	3 - 18 Years
Solar equipment	21,304	—	25 years
Construction in progress	35,094	16,336	

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	732,720	614,889
Less: accumulated depreciation and amortization	(356,836)	(303,112)
Property and equipment, net	\$ 375,884	\$ 311,777

* Leasehold improvements are depreciated over the shorter of the life of the leasehold improvement or the lease term.

Note 7—Goodwill and Intangible Assets

The change in goodwill by segment for 2018 and 2017 was as follows (in thousands):

	Power	Pipeline	Utilities	Transmission	Civil	Total
Balance at January 1, 2017	\$ 24,512	\$ 42,252	\$ 20,312	\$ —	\$ 40,150	\$ 127,226
Goodwill acquired during the year	—	9,269	17,000	—	—	26,269
Purchase price allocation adjustments	(121)	—	—	—	—	(121)
Balance at January 1, 2018	\$ 24,391	\$ 51,521	\$ 37,312	\$ —	\$ 40,150	\$ 153,374
Goodwill acquired during the year	1,542	764	—	50,479	—	52,785
Balance at December 31, 2018	\$ 25,933	\$ 52,285	\$ 37,312	\$ 50,479	\$ 40,150	\$ 206,159

During the third quarter of 2016, we made a decision to divest our Texas heavy civil business unit, a division of Primoris Heavy Civil within the Civil segment. We engaged a financial advisor to assist in the marketing and sale of the business unit, and planned to continue operating the business unit until completion of a sale. In April 2017, the Board of Directors determined that based on the information available, we would attain the best long-term value by withdrawing

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from the sales process and continuing to operate the business unit. We will aggressively pursue claims for five Texas Department of Transportation projects that resulted in significant losses recorded in 2016. However, there can be no assurance as to the final amounts collected. In accordance with ASC 350, "Intangibles—Goodwill and Other", the planned divestiture triggered an analysis of the goodwill at Primoris Heavy Civil, resulting in a pre-tax, non-cash goodwill impairment charge of approximately \$2.7 million in the third quarter of 2016.

There were no impairments of goodwill for the years ended December 31, 2018 and 2017.

The table below summarizes the intangible asset categories, amounts and the average amortization periods, which are generally on a straight-line basis (in thousands):

	Weighted Average Life	December 31, 2018		Intangible assets, net	December 31, 2017		Intangible assets, net
		Gross Carrying Amount	Accumulated Amortization		Gross Carrying Amount	Accumulated Amortization	
Tradename	9 years	\$ 31,390	\$ (25,156)	\$ 6,234	\$ 32,175	\$ (22,238)	\$ 9,937
Customer relationships	16 years	97,400	(23,079)	74,321	49,900	(16,338)	33,562
Non-compete agreements	5 years	1,900	(1,387)	513	1,900	(820)	1,080
Other	3 years	275	(145)	130	275	(54)	221
Total	15 years	\$ 130,965	\$ (49,767)	\$ 81,198	\$ 84,250	\$ (39,450)	\$ 44,800

Amortization expense of intangible assets was \$11.3 million, \$8.7 million and \$6.6 million for the years ended December 31, 2018, 2017 and 2016, respectively. In the second quarter of 2017, we recorded a \$0.5 million impairment charge related to a tradename intangible asset in our Pipeline segment. The impairment charge is included in "Selling, general and administrative expenses" in the Consolidated Statements of Income. Estimated future amortization expense for intangible assets as of December 31, 2018 is as follows (in thousands):

For the Years Ending December 31,	Estimated Intangible Amortization Expense
2019	\$ 11,559
2020	8,814
2021	7,577
2022	6,416
2023	5,394

Thereafter	41,438
	\$ 81,198

Note 8—Accounts Payable and Accrued Liabilities

At December 31, 2018 and 2017, accounts payable included retention amounts of approximately \$13.2 million and \$13.5 million, respectively. These amounts due to subcontractors have been retained pending contract completion and customer acceptance of jobs.

The following is a summary of accrued expenses and other current liabilities at December 31 (in thousands):

	December 31, 2018	December 31, 2017
Payroll and related employee benefits	\$ 60,509	\$ 45,708
Insurance, including self-insurance reserves	41,379	21,391
Corporate income taxes and other taxes	5,040	2,843
Other	10,599	6,085
	\$ 117,527	\$ 76,027

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Note 9—Credit Arrangements

Long-term debt and credit facilities consist of the following at December 31 (in thousands):

Commercial Notes Payable and Mortgage Notes Payable

	December 31, 2018	December 31, 2017
Term loan	\$ 214,500	\$ —
Revolving credit facility	—	—
Commercial equipment notes	127,458	165,532
Mortgage notes	27,200	11,242
Senior secured notes	—	82,143
Total debt	369,158	258,917
Unamortized debt issuance costs	(1,001)	(102)
Total debt, net	\$ 368,157	\$ 258,815
Less: current portion	(62,488)	(65,464)
Long-term debt, net of current portion	\$ 305,669	\$ 193,351

The weighted average interest rate on total debt outstanding at December 31, 2018 and 2017 was 4.1% and 3.0%, respectively.

Scheduled maturities of long-term debt are as follows (in thousands):

	Year Ending December 31,
2019	\$ 62,488
2020	51,995
2021	37,312
2022	31,052
2023	165,067
Thereafter	21,244
	\$ 369,158

Commercial Notes Payable and Mortgage Notes Payable

From time to time, we enter into commercial equipment notes payable with various equipment finance companies and banks. At December 31, 2018, interest rates ranged from 1.83% to 4.40% per annum and maturity dates range from April 29, 2019 to April 30, 2023. The notes are secured by certain construction equipment.

During 2015, we entered into two secured mortgage notes payable to a bank totaling \$8.0 million, with interest rates of 4.3% per annum and maturity dates of January 1, 2031. The mortgage notes are secured by real estate.

During 2017, we acquired three properties from a related party and assumed mortgage notes secured by the properties totaling \$4.2 million, with interest rates of 5.0% per annum and maturity dates of October 1, 2038.

During 2018, we entered into two secured mortgage notes payable to a bank totaling \$16.5 million, with interest rates of 4.5% per annum and maturity dates of November 5, 2028. The mortgage notes are secured by real estate.

Credit Agreement

On September 29, 2017, we entered into an amended and restated credit agreement (the “Credit Agreement”) with CIBC Bank USA, as administrative agent (the “Administrative Agent”) and co-lead arranger, The Bank of the West, as co-lead arranger, and Branch Banking and Trust Company, IBERIABANK, Bank of America, and Simmons Bank (collectively, the “Lenders”), which increased our borrowing capacity from \$125.0 million to \$200.0 million. The Credit Agreement consisted of a \$200.0 million revolving credit facility (“Revolving Credit Facility”), whereby the

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Lenders agreed to make loans on a revolving basis from time to time and to issue letters of credit for up to the \$200.0 million committed amount, and contains an accordion feature that would allow us to increase the borrowing capacity thereunder from \$200.0 million up to \$250.0 million, subject to obtaining additional or increased lender commitments.

On July 9, 2018, we entered into the First Amendment and Joinder to the Amended and Restated Credit Agreement (the “July Amendment”) with the Administrative Agent and the Lenders. On August 3, 2018, we entered into the Second Amendment to the Amended and Restated Credit Agreement (the “August Amendment”, and together with the July Amendment, the “Amendments”) with the Administrative Agent and the Lenders. The Amendments amend the Credit Agreement.

The Amendments, among other things, modify the Credit Agreement to add Capital One, N.A. and Regions Bank as Lenders, to add a \$220.0 million term loan (the “Term Loan”), increase the accordion feature that will allow us to increase the Term Loan or borrowing capacity under the Revolving Credit Facility by \$75.0 million, and extend the maturity date of the Credit Agreement from September 29, 2022 to July 9, 2023.

The Term Loan requires quarterly principal payments beginning in the third quarter of 2018 equal to \$2.75 million, or \$11.0 million per annum, for the first three years and \$4.125 million, or \$16.5 million per annum, for years four and five, with the balance due on July 9, 2023.

The proceeds from the Term Loan were used to refinance and extinguish all of the Senior Notes (as discussed below), to pay down a significant portion of the borrowings under our Revolving Credit Facility that was used to finance the acquisition of Willbros, and for general corporate purposes.

We capitalized \$0.6 million of debt issuance costs during the third quarter of 2017 and \$1.0 million during the third quarter of 2018 that is being amortized as interest expense over the life of the Credit Agreement.

The principal amount of any loans under the Credit Agreement will bear variable interest at either: (i) LIBOR plus an applicable margin as specified in the Credit Agreement (based on our senior debt to EBITDA ratio as defined in the Credit Agreement), or (ii) the Base Rate (which is the greater of (a) the Federal Funds Rate plus 0.50% or (b) the prime rate as announced by the Administrative Agent). Non-use fees, letter of credit fees and administrative agent fees are payable at rates specified in the Credit Agreement.

The principal amount of any loan drawn under the Credit Agreement may be prepaid in whole or in part at any time, with a minimum prepayment of \$5.0 million.

At December 31, 2018, commercial letters of credit outstanding were \$53.0 million. Other than commercial letters of credit, there were no outstanding borrowings under the Revolving Credit Facility, and available borrowing capacity was \$147.0 million at December 31, 2018.

Loans made under the Credit Agreement are secured by our assets, including, among others, our cash, inventory, equipment (excluding equipment subject to permitted liens), and accounts receivable. All of our domestic subsidiaries have issued joint and several guaranties in favor of the Lenders for all amounts under the Credit Agreement.

The Credit Agreement contains various restrictive and financial covenants including, among others, a senior debt/EBITDA ratio and debt service coverage requirements. In addition, the Credit Agreement includes restrictions on investments, change of control provisions and provisions in the event we dispose of more than 20% of our total assets.

We were in compliance with the covenants for the Credit Agreement at December 31, 2018.

On September 13, 2018, we entered into an interest rate swap agreement to manage our exposure to the fluctuations in variable interest rates. The swap effectively exchanged the interest rate on 75% of the debt outstanding under our Term Loan from variable LIBOR to a fixed rate of 2.886% per annum, in each case plus an applicable margin, which was 2.00% at December 31, 2018. See Note 10 – “Derivative Instruments”.

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Senior Secured Notes and Shelf Agreement

On December 28, 2012, we entered into a \$50.0 million Senior Secured Notes purchase agreement (“Senior Secured Notes”) and a \$25.0 million private shelf agreement (the “Notes Agreement”) by and among us, The Prudential Investment Management, Inc. and certain Prudential affiliates (the “Noteholders”). On June 3, 2015, the Notes Agreement was amended to provide for the issuance of additional notes of up to \$75.0 million over the three year period ending June 3, 2018 (“Additional Senior Notes” and together with the Senior Secured Notes, the “Senior Notes”).

The Senior Notes were funded in three tranches of \$50.0 million on December 28, 2012, \$25.0 million on July 25, 2013, and \$25.0 million on November 9, 2015, and bore interest at annual rates of 3.65%, 3.85%, and 4.60%, respectively, paid quarterly in arrears.

On July 9, 2018, we used a portion of the proceeds from the Term Loan to pay off and extinguish all of the Senior Notes, which resulted in a prepayment penalty recognized in the third quarter of 2018 of \$2.3 million.

Canadian Credit Facility

We had a demand credit facility for \$8.0 million in Canadian dollars with a Canadian bank for purposes of issuing commercial letters of credit in Canada. During the fourth quarter of 2018, we reduced the amount of the credit facility to \$4.0 million. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. The facility provides for an annual fee of 1.0% for any issued and outstanding commercial letters of credit. Letters of credit can be denominated in either Canadian or U.S. dollars. At December 31, 2018, there were no letters of credit outstanding, and the available borrowing capacity was \$4.0 million in Canadian dollars. The credit facility contains a working capital restrictive covenant for our Canadian subsidiary, OnQuest Canada, ULC. At December 31, 2018, OnQuest Canada, ULC was in compliance with the covenant.

Note 10 — Derivative Instruments

We are exposed to certain market risks related to changes in interest rates. To monitor and manage these market risks, we have established risk management policies and procedures. We do not enter into derivative instruments for any purpose other than hedging interest rate risk. None of our derivative instruments are used for trading purposes.

Interest Rate Risk. We are exposed to variable interest rate risk as a result of variable-rate borrowings under our Credit Agreement. To manage fluctuations in cash flows resulting from changes in interest rates on a portion of our variable-rate debt, we entered into an interest rate swap agreement on September 13, 2018 with an initial notional amount of \$165.0 million, or 75% of the debt outstanding under our Term Loan, which was not designated as a hedge for accounting purposes. The notional amount of the swap will be adjusted down each quarter by 75% of the required principal payments made on the Term Loan. See Note 9 – “Credit Arrangements”. The swap effectively changes the variable-rate cash flow exposure on the debt obligations to fixed rates. The fair value of outstanding interest rate swap derivatives can vary significantly from period to period depending on the total notional amount of swap derivatives outstanding and fluctuations in market interest rates compared to the interest rates fixed by the swaps. As of December 31, 2018, our outstanding interest rate swap agreement contained a notional amount of \$160.9 million with a maturity date of July 10, 2023. There were no outstanding interest rate swap agreements at December 31, 2017.

Credit Risk. By using derivative instruments to economically hedge exposures to changes in interest rates, we are exposed to counterparty credit risk. Credit risk is the failure of a counterparty to perform under the terms of a derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, we do not possess credit risk. We minimize the credit risk in derivative instruments by entering into transactions with high quality counterparties. We have entered into netting agreements, including International Swap Dealers Association (“ISDA”) Agreements, which allow for netting of contract receivables and payables in the event of default by either party.

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The following table summarizes the fair value of our derivative contracts included in the Consolidated Balance Sheets (in thousands):

	Balance Sheet Location	Liability Derivatives	
		December 31, 2018	December 31, 2017
Interest rate swap	Other long-term liabilities	\$ 2,829	\$ —
Total derivatives		\$ 2,829	\$ —

The following table summarizes the amounts recognized with respect to our derivative instruments within the Consolidated Statements of Income (in thousands):

	Location of Loss Recognized on Derivatives	Amount of Loss Recognized in Income on Derivatives		
		December 31, 2018	December 31, 2017	December 31, 2016
Interest rate swap	Interest expense	3,131	—	—

Note 11 — Noncontrolling Interests

We are currently participating in two joint ventures, each of which operates in the Power segment. Both joint ventures have been determined to be a VIE and we were determined to be the primary beneficiary as a result of our significant influence over the joint venture operations.

Each joint venture is a partnership, and consequently, the tax effect of our share of the income was recognized by us. The net assets of the joint ventures are restricted for use by the specific project and are not available for our general operations.

The Carlsbad joint venture operating activities began in 2015 and are included in our Consolidated Statements of Income as follows for the years ended December 31 (in thousands):

	2018	2017	2016
Revenue	\$ 102,868	\$ 110,669	\$ 7,254
Net income attributable to noncontrolling interests	9,483	1,780	325

The Carlsbad joint venture made distributions of \$9.0 million to the noncontrolling interest and \$9.0 million to us during the year ended December 31, 2018. The Carlsbad joint venture made no distributions to the partners during the year ending December 31, 2017. In addition, we did not make any capital contributions to the Carlsbad joint venture during the years ended December 31, 2018 and 2017. The project was substantially complete as of December 31, 2018.

The carrying value of the assets and liabilities associated with the operations of the Carlsbad joint venture are included in our Consolidated Balance Sheets at December 31 as follows (in thousands):

	December 31, 2018	December 31, 2017
Cash	\$ 3,117	\$ 44,308
Accounts receivable	\$ 4,451	\$ 15,343
Contract assets	\$ 8,158	\$ —
Accounts payable	\$ 2,279	\$ 12,352
Contract liabilities	\$ 5,946	\$ 42,743
Due to Primoris	\$ 1,979	\$ —

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The Wilmington joint venture operating activities began in 2015 and are included in our Consolidated Statements of Income as follows for the years ended December 31 (in thousands):

	2018	2017	2016
Revenue	\$ 2,133	\$ 31,638	\$ 19,781
Net income attributable to noncontrolling interests	649	2,716	677

The Wilmington joint venture made distributions of \$4.1 million to the noncontrolling interest and \$4.1 million to us during the year ended December 31, 2018. No distributions were made during the year ended December 31, 2017. In addition, we did not make any capital contributions to the Wilmington joint venture during the years ended December 31, 2018 and 2017. The project is complete, the warranty period expired in October 2018, and dissolution of the joint venture is expected to occur in 2019.

The carrying value of the assets and liabilities associated with the operations of the Wilmington joint venture are included in our Consolidated Balance Sheets at December 31 as follows (in thousands):

	December 31, 2018	December 31, 2017
Cash	\$ 10	\$ 15,948
Accounts receivable	\$ —	\$ 598
Accounts payable	\$ —	\$ 759
Contract liabilities	\$ —	\$ 1,480
Due to Primoris	\$ —	\$ 7,428

The following table summarizes the total balance sheet amounts for the two joint ventures, which are included in our Consolidated Balance Sheets(in thousands):

At December 31, 2018	Joint Venture Amounts	Consolidated Amounts
Cash	\$ 3,127	\$ 151,063
Accounts receivable	\$ 4,451	\$ 372,695
Contract assets	\$ 8,158	\$ 364,245
Accounts payable	\$ 2,279	\$ 249,217
Contract liabilities	\$ 5,946	\$ 189,539

At December 31, 2017

Cash	\$ 60,256	\$ 170,385
Accounts receivable	\$ 15,941	\$ 291,589
Accounts payable	\$ 13,111	\$ 140,943
Contract liabilities	\$ 44,223	\$ 169,377

Note 12—Commitments and Contingencies

Leases—We lease certain property and equipment under non-cancelable operating leases, which expire at various dates through 2024. The leases require us to pay all taxes, insurance, maintenance, and utilities and are classified as operating leases in accordance with ASC 840 “Leases”.

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The future minimum lease payments required under non-cancelable operating leases are as follows (in thousands):

For the Years Ending December 31,	Total Commitments
2019	\$ 56,693
2020	41,733
2021	26,607
2022	12,753
2023	6,530
Thereafter	8,229
	\$ 152,545

Total lease expense during the years ended December 31, 2018, 2017 and 2016 was \$53.4 million, \$25.5 and \$22.5 million, respectively.

Withdrawal liability for multiemployer pension plan— In November 2011, members of the Pipe Line Contractors Association “PLCA” including ARB, Rockford and Q3C (prior to our acquisition in 2012), withdrew from the Central States Southeast and Southwest Areas Pension Fund multiemployer pension plan (“Plan”). These withdrawals were made in order to mitigate additional liability in connection with the significantly underfunded Plan. We recorded a withdrawal liability of \$7.5 million, which was increased to \$7.6 million after the acquisition of Q3C. During the first quarter of 2016, we received a final payment schedule. As a result of payments made and based on this schedule, the liability recorded at December 31, 2017 was \$4.7 million. We paid the remaining liability balance during 2018, and have no plans to withdraw from any other labor agreements.

NTTA settlement—On February 7, 2012, we were sued in an action entitled North Texas Tollway Authority (“NTTA”), Plaintiff v. James Construction Group, LLC, and KBR, Inc., Defendants, v. Reinforced Earth Company, Third-Party Defendant (the “Lawsuit”). On February 25, 2015 the Lawsuit was settled, and we recorded a liability for \$17.0 million. A second defendant agreed to provide up to \$5.4 million to pay for the total expected remediation cost of approximately \$22.4 million. We will use our settlement obligation to pay for a third-party contractor approved by the NTTA. In the event that the total remediation costs exceed the \$22.4 million, the second defendant would pay 20% of the excess amount and we would pay for 80% of the excess amount. During 2018, we increased our forecasted remediation costs based on bids received by the NTTA from third-party contractors, and increased our liability by \$3.8 million. As of December 31, 2018, we have spent \$4.2 million for remediation. While we continue to monitor the progress toward remediation and the total remediation costs, at this time we cannot determine the eventual remediation cost. At December 31, 2018, our remaining accrual balance was \$18.5 million.

Litigation—We had been engaged in dispute resolution to collect money we believe we are owed for a construction project completed in 2014. Because of uncertainties associated with the project, including uncertainty of the amounts that would be collected, we used a zero profit margin approach to recording revenue during the construction period for

the project.

For the project, a cost reimbursable contract, we had a receivable of \$32.9 million with a reserve of approximately \$17.9 million included in "Contract liabilities" at December 31, 2017. The dispute resolution for the receivable initially required international arbitration; however, in the first half of 2016, the owner sought bankruptcy protection in U.S. bankruptcy court. We initiated litigation against the sureties who had provided lien and stop payment release bonds for the total amount owed. During 2018, we settled with the sureties and collected the \$32.9 million receivable, which resulted in recognizing revenue of approximately \$18.1 million and gross profit of approximately \$17.4 million.

We had been engaged in dispute resolution to collect money we believed was owed to us for another construction project completed in 2014. During 2016, we settled the dispute with an exchange of general releases and receipt of \$38.0 million in cash, which resulted in recognizing revenue of approximately \$27.5 million and gross profit of approximately \$26.7 million in the third quarter of 2016.

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We are subject to other claims and legal proceedings arising out of our business. We provide for costs related to contingencies when a loss from such claims is probable and the amount is reasonably estimable. In determining whether it is possible to provide an estimate of loss, or range of possible loss, we review and evaluate our litigation and regulatory matters on a quarterly basis in light of potentially relevant factual and legal developments. If we determine an unfavorable outcome is not probable or reasonably estimable, we do not accrue for a potential litigation loss.

Management is unable to ascertain the ultimate outcome of other claims and legal proceedings; however, after review and consultation with counsel and taking into consideration relevant insurance coverage and related deductibles/self-insurance retention, management believes that it has meritorious defense to the claims and believes that the reasonably possible outcome of such claims will not, individually or in the aggregate, have a materially adverse effect on our consolidated results of operations, financial condition or cash flow.

SEC Inquiry— During the fourth quarter of 2014, the staff of the SEC began inquiring about certain contract revenue recognition practices of the Company during 2013 and 2014. Since that time, we cooperated and responded to the staff's inquiries in connection with this matter. We settled this matter and the inquiry was closed during the third quarter of 2018.

Litigation matters from the acquisition of Willbros — In the fourth quarter of 2014, Willbros announced a restatement of its Condensed Consolidated Financial Statements for the March 2014 and June 2014 quarters. Shareholder derivative lawsuits were filed and shareholder demands were made purportedly on behalf of Willbros in connection with the restatement. All such lawsuits and demands have been resolved either through voluntary dismissal by the plaintiffs, or through settlement funded by Willbros' insurance carriers.

Bonding—As of December 31, 2018 and 2017, we had bid and completion bonds issued and outstanding totaling approximately \$554.9 million and \$705.7 million, respectively.

Note 13—Reportable Segments

We segregate our business into five reportable segments: the Power segment, the Pipeline segment, the Utilities segment, the Transmission segment, which is a new reportable segment created in connection with the acquisition of Willbros, and the Civil segment. Each of our reportable segments is comprised of similar business units that specialize in services unique to the segment. Driving the end-user focused segments are differences in the economic characteristics of each segment, the nature of the services provided by each segment; the production processes of each segment; the type or class of customer using the segment's services; the methods used by the segment to provide the

services; and the regulatory environment of each segment's customers.

The classification of revenue and gross profit for segment reporting purposes can at times require judgment on the part of management. Our segments may perform services across industries or perform joint services for customers in multiple industries. To determine reportable segment gross profit, certain allocations, including allocations of shared and indirect costs, such as facility costs, equipment costs and indirect operating expenses, were made.

The following is a brief description of the reportable segments:

The Power segment operates throughout the United States and in Canada and specializes in a range of services that include full EPC project delivery, turnkey construction, retrofits, upgrades, repairs, outages, and maintenance for entities in the petroleum, petrochemical, water, and other industries.

The Pipeline segment operates throughout the United States and specializes in a range of services, including pipeline construction, pipeline maintenance, pipeline facility work, compressor stations, pump stations, metering facilities, and other pipeline related services for entities in the petroleum and petrochemical industries.

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The Utilities segment operates primarily in California, the Midwest, and the Southeast regions of the United States and specializes in a range of services, including utility line installation and maintenance, gas and electric distribution, streetlight construction, substation work, and fiber optic cable installation.

The Transmission segment operates primarily in the Southeastern and Gulf Coast regions of the United States and specializes in a range of services in electric and gas transmission and distribution, including comprehensive engineering, procurement, maintenance and construction, repair, and restoration of utility infrastructure.

The Civil segment operates primarily in the Southeastern and Gulf Coast regions of the United States and specializes in highway and bridge construction, airport runway and taxiway construction, demolition, heavy earthwork, soil stabilization, mass excavation, and drainage projects.

All intersegment revenue and gross profit, which was immaterial, has been eliminated in the following tables.

Segment Revenue

Revenue by segment for the years ended December 31, 2018, 2017 and 2016 was as follows (in thousands):

Segment	2018		2017		2016	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Power	\$ 694,048	23.6%	\$ 606,125	25.5%	\$ 478,653	24.0%
Pipeline	590,937	20.1%	465,570	19.5%	401,931	20.1%
Utilities	902,772	30.7%	806,523	33.9%	637,212	31.9%
Transmission (1)	286,749	9.8%	—	—	—	—
Civil	464,972	15.8%	501,777	21.1%	479,152	24.0%
Total	\$ 2,939,478	100.0%	\$ 2,379,995	100.0%	\$ 1,996,948	100.0%

(1) Represents results from the June 1, 2018 acquisition date of Willbros to December 31, 2018.

Segment Gross Profit

Gross profit by segment for the years ended December 31, 2018, 2017 and 2016 was as follows (in thousands):

Segment	2018		2017		2016	
	Gross Profit	% of Revenue	Gross Profit	% of Revenue	Gross Profit	% of Revenue
Power	\$ 109,789	15.8%	\$ 65,675	10.8%	\$ 49,807	10.4%
Pipeline	66,602	11.3%	92,087	19.8%	68,100	16.9%
Utilities	111,825	12.4%	113,037	14.0%	100,071	15.7%
Transmission (1)	31,904	11.1%	—	—	—	—
Civil	5,617	1.2%	7,635	1.5%	(16,671)	(3.5%)
Total	\$ 325,737	11.1%	\$ 278,434	11.7%	\$ 201,307	10.1%

(1) Represents results from the June 1, 2018 acquisition date of Willbros to December 31, 2018.

Geographic Region — Revenue and Total Assets

The majority of our revenue is derived from customers in the United States with approximately 2.9%, 0.3% and 0.6% generated from sources outside of the United States for the years ended December 31, 2018, 2017, and 2016, respectively. At December 31, 2018 and 2017, approximately 2.8% and 1.0%, respectively of total assets were located outside of the United States.

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Note 14—Customer Concentrations

We operate in multiple industry segments encompassing the construction of commercial, industrial, and public works infrastructure assets primarily throughout the United States. During the years ended December 31, 2018, 2017 and 2016, we generated 35.3%, 38.4% and 45.6%, of our revenue, respectively, from the following customers (in thousands):

Description of Customer's Business	Segment	2018		2017		2016	
		Amount	Percentage	Amount	Percentage	Amount	Percentage
Public gas and electric utility	Utilities/Power	\$ 250,286	8.5%	\$ 210,747	8.9%	\$ 184,002	9.2%
Private gas and electric utility	Utilities	232,162	7.9%	190,659	8.0%	201,443	10.1%
State DOT	Civil	202,452	6.9%	222,142	9.3%	193,049	9.7%
Pipeline operator	Pipeline	198,198	6.7%	*	*	*	*
Pipeline operator	Pipeline/Power	155,280	5.3%	*	*	*	*
Chemical/Energy producer	Power/Civil	*	*	160,995	6.8%	208,458	10.4%
Pipeline operator	Pipeline	*	*	128,182	5.4%	*	*
Pipeline operator	Pipeline	*	*	*	*	123,055	6.2%
		\$ 1,038,378	35.3%	\$ 912,725	38.4%	\$ 910,007	45.6%

(*)Indicates a customer with less than 5.0% of revenue during such period.

Typically, the top ten customers in any one calendar year generate revenue in excess of 50.0% of total revenue and consist of a different group of customers in each year. For the years ended December 31, 2018, 2017 and 2016, approximately 52.2%, 56.4% and 60.4%, respectively, of total revenue were generated from our top ten customers in that year. In each of the years, a different group of customers comprised the top ten customers by revenue.

At December 31, 2018, approximately 9.3% of our accounts receivable were due from one customer, and that customer provided 5.3% of our revenue for the year ended December 31, 2018. At December 31, 2017, approximately 4.3% of our accounts receivable were due from one customer, and that customer provided 8.9% of our revenue for the year ended December 31, 2017.

On January 29, 2019, one of our utility customers filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of December 31, 2018, the utility customer comprised approximately 1.9% of our total accounts receivable. In addition to accounts receivable, there is approximately \$36.0 million in unbilled revenue, net as of December 31, 2018. For the year ended December 31, 2018, the customer accounted for approximately 8.5% of our total revenue. Our exposure to diverse end markets limits the potential for any one client or job to have a material adverse impact on our operations. Although we do not currently expect a material impact to our financial performance as a result of this customer's recent announcement, the failure to recover amounts due to us from this customer or any customer who enters bankruptcy could have a negative impact on our results of operations and cash flows, and the loss of a customer due to bankruptcy could have a negative impact on our financial condition, results of operations and cash flows. We do not believe a reserve for the accounts receivable and unbilled revenue is appropriate at this time. However, we will closely monitor our current and future potential exposure.

Note 15 — Multiemployer Plans

Union Plans—Various subsidiaries are signatories to collective bargaining agreements. These agreements require that we participate in and contribute to a number of multiemployer benefit plans for our union employees at rates determined by the agreements. The trustees for each multiemployer plan determine the eligibility and allocations of contributions and benefit amounts, determine the types of benefits and administer the plan.

We contributed \$48.8 million, \$46.9 million, and \$34.2 million, to multiemployer pension plans for the years ended December 31, 2018, 2017 and 2016, respectively. These costs were charged to the related construction contracts in process. Contributions during 2017 increased from 2016 as a result of an increase in the number of man-hours worked by our union labor.

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The financial risks of participating in multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If a participating employer chooses to stop participating in the plan, a withdrawal liability may be created based on the unfunded vested benefits for all employees in the plan.

Under U.S. legislation regarding multiemployer pension plans, an employer is required to pay an amount that represents its proportionate share of a plan's unfunded vested benefits in the event of withdrawal from a plan or upon plan termination.

We participate in a number of multiemployer pension plans, and our potential withdrawal obligation may be significant. Any withdrawal liability would be recorded when it is probable that a liability exists and can be reasonably estimated, in accordance with GAAP. As discussed in Note 12—"Commitments and Contingencies," in 2011 we withdrew from the Central States Southeast and Southwest Areas Pension Fund multiemployer pension plan. We have no plans to withdraw from any other labor agreements.

During the last three years, we made annual contributions to 38 pension plans. Based upon the most recent and available plan financial information, none of the significant pension plans we contributed to below listed us in the plan's Form 5500 as providing more than 5.0% of the plan's total contributions during the years ended December 31, 2018, 2017, and 2016.

Our participation in significant plans for the years ended December 31, 2018, 2017 and 2016 is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three digit plan number. The "Zone Status" is based on the latest information that we received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The "Surcharge Imposed" column includes plans in a red zone status that require a payment of a surcharge in excess of regular contributions. The next column lists the expiration date of our collective bargaining agreement related to the plan. The table follows:

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Plan	Pension Protection Act Zone Status		FIP/RP Status Pending / Implemented	Surcharge Imposed	Collective Bargaining Agreement Expiration Date	Contributions of the Company		
	2018	2017				2018	2017	2016
390/001	Green as of February 1, 2017	Green as of February 1, 2016	No	No	5/31/2020	\$ 6,643	\$ 7,562	\$ 5,373
443/001	Green as of January 1, 2017	Green as of January 1, 2016	No	No	9/30/2022	5,122	3,219	2,614
345/001	Red as of January 1, 2017	Red as of January 1, 2016	No	No	5/31/2020	3,967	4,658	2,415
608/001	Green as of June 1, 2017	Yellow as of June 1, 2016	No	No	6/30/2019	3,793	2,945	3,598
779	Yellow as of July 1 2017	Yellow as of July 1 2017	No	No	9/30/2022	3,686	2,548	2,161
056/001	Green as of January 1, 2017	Green as of January 1, 2016	No	No	6/30/2022	2,873	2,393	2,742
599/001	Green as of January 1, 2017	Green as of January 1, 2016	No	No	6/01/2019	2,565	2,137	2,018

	Yellow as of	Yellow as of						
478/001	July 1, 2017	July 1, 2016	No	No	6/30/2019	2,363	2,448	1,643
	Green as of	Green as of						
433/001	January 1, 2017	January 1, 2016	No	No	5/31/2020	1,988	6,050	2,740
			Contributions to significant plans			33,000	33,960	25,304
			Contributions to other multiemployer plans			15,790	12,975	8,879
			Total contributions made			\$ 48,790	\$ 46,935	\$ 34,183

Note 16—Company Retirement Plans

Defined Contribution Plans—We sponsor multiple defined contribution plans for eligible employees not covered by collective bargaining agreements. Our plans include various features such as voluntary employee pre-tax and Roth-based contributions and matching contributions made by us. In addition, at the discretion of our Board of Directors, we may make additional profit share contributions to the plans. No such additional contributions were made during 2016 through 2018. Matching contributions to all defined contribution plans for the years ended December 31, 2018, 2017 and 2016 were \$4.6 million, \$4.2 million, and \$4.0 million, respectively. The increase in contributions in 2018 is primarily due to the acquisition of Willbros. We have no other post-retirement benefits.

Note 17—Deferred Compensation Agreements and Stock-Based Compensation

Primoris Long-Term Retention Plan (“LTR Plan”) — We adopted a long-term retention plan for certain senior managers and executives. The voluntary plan provides for the deferral of one half of the participant’s annual earned bonus for one year. Generally, except in the case of death, disability or involuntary separation from service, the deferred compensation is vested to the participant only if actively employed by us on the payment date of bonus amounts the following year. The amount of compensation deferred under this plan is calculated each year. Total deferred compensation liability under this plan as of December 31, 2018 and 2017 was \$7.3 million and \$5.7 million, respectively.

Participants in the long term retention plan may elect to purchase our common stock at a discounted price. For bonuses earned in 2018 and 2017, the participants could use up to one sixth of their bonus amount to purchase shares of stock. The purchase price was calculated as 75% of the average market closing price for the month of December 2018 and December 2017, respectively. The discount is treated as compensation to the participant.

Stock-based compensation — In May 2013, the shareholders approved and we adopted the Primoris Services Corporation 2013 Long-term Incentive Equity Plan (“Equity Plan”). Our Board of Directors has granted 403,985 Restricted Stock Units (“Units”) to executives under the Equity Plan. The grants were documented in RSU Award

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Agreements which provide for a vesting schedule and require continuing employment of the executive. The Units are subject to earlier acceleration, termination, cancellation or forfeiture as provided in the underlying RSU Award Agreement. The table below presents the activity for 2018:

	Units	Weighted Average Grant Date Fair Value per Unit
Nonvested RSUs		
Balance at December 31, 2017	85,415	\$ 23.76
Granted	144,920	25.53
Vested	(28,471)	23.76
Balance at December 31, 2018	201,864	25.03

During 2017, 10,000 Units were granted with a weighted-average grant date fair value per unit of \$22.90. During 2016, 100,553 Units were granted with a weighted-average grant-date fair value per unit of \$23.87. The total fair value of Units that vested during 2018, 2017 and 2016 was \$0.7 million, \$1.7 million and \$0.6 million, respectively.

At December 31, 2018, a total of 202,121 Units were vested. The vesting schedule for the remaining Units is as follows:

For the Years Ending December 31,	Number of Units to Vest
2019	57,227
2020	11,067
2021	128,889
2022	2,340
2023	2,341
	201,864

Under guidance of ASC 718, "Compensation — Stock Compensation", stock-based compensation cost is measured at the date of grant, based on the calculated fair value of the stock-based award, and is recognized as expense over the employee's requisite service period (generally the vesting period of the award).

The fair value of the Units was based on the closing market price of our common stock on the day prior to the date of the grant. Stock compensation expense for the Units is being amortized using the straight-line method over the service period. For the years ended December 31, 2018, 2017, and 2016, we recognized \$1.3 million, \$1.1 million, and \$1.6 million respectively, in compensation expense. At December 31, 2018, approximately \$3.7 million of unrecognized

compensation expense remains for the Units, which will be recognized over a weighted average period of 2.6 years.

Vested Units accrue “Dividend Equivalents” (as defined in the Equity Plan) which are accrued as additional Units. At December 31, 2018, a total of 5,121 Dividend Equivalent Units were accrued.

Note 18—Related Party Transactions

Prior to March 2017, we leased three properties in California from Stockdale Investment Group, Inc. (“SIGI”). Our Chairman of the Board of Directors, who is our largest stockholder, and his family hold a majority interest of SIGI. In March 2017, we exercised a right of first refusal and purchased the SIGI properties. The purchase was approved by our Board of Directors for \$12.8 million. We assumed three mortgage notes totaling \$4.2 million with the remainder paid in cash. During the years ended December 31, 2017 and 2016, we paid \$0.2 million and \$0.8 million, respectively, in lease payments to SIGI for the use of these properties.

We lease properties from other individuals that are current employees. The amounts leased are not material and each arrangement was approved by the Board of Directors.

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Note 19—Income Taxes

Income before provision for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2018	2017	2016
United States	\$ 111,002	\$ 105,555	\$ 48,097
Foreign	2,356	(272)	774
Total	113,358	105,283	48,871

The components of the provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current provision (benefit)			
Federal	\$ 3,405	\$ 21,509	\$ 4,726
State	4,536	3,371	5,423
Foreign	674	(188)	92
	8,615	24,692	10,241
Deferred provision (benefit)			
Federal	14,535	1,958	11,560
State	2,120	1,219	(727)
Foreign	(139)	(36)	72
	16,516	3,141	10,905
Change in valuation allowance	634	600	—
Total	\$ 25,765	\$ 28,433	\$ 21,146

A reconciliation of income tax expense compared to the amount of income tax expense that would result by applying the U.S. federal statutory income tax rate to pre-tax income is as follows:

	Year Ended December 31,		
	2018	2017	2016
U.S. federal statutory income tax rate	21.0 %	35.0 %	35.0 %
Impact of U.S tax reform	1.1	(9.3)	—

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State taxes, net of federal income tax impact	5.1	2.9	6.4
Tax credits	(5.3)	—	(0.4)
Income taxed at rates greater than U.S.	0.4	(0.2)	0.4
Domestic production activities deduction	—	(2.3)	(1.1)
Nondeductible meals & entertainment	2.9	2.8	5.4
Other items	(0.2)	(0.7)	(1.5)
Effective tax rate excluding income attributable to noncontrolling interests	25.0	28.2	44.2
Impact of income from noncontrolling interests on effective tax rate	(2.3)	(1.2)	(0.9)
Effective tax rate	22.7 %	27.0 %	43.3 %

The provision for income taxes has been determined based upon the tax laws and rates in the countries in which we operate. The Company and its subsidiaries operating in the United States are subject to federal income tax rates of 21.0% and varying state income tax rates. Our principal international operations are in Canada. Our subsidiaries in Canada are subject to a corporate income tax rate of 27.0%. We did not have any non-taxable foreign earnings from tax holidays for taxable years 2016 through 2018.

Deferred taxes are recognized for temporary differences between the financial reporting bases and tax bases of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized

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based upon consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income, the length of the tax asset carryforward periods, and tax planning strategies.

SAB 118 provides guidance on accounting for uncertainties of the effects of the Tax Act. Specifically, SAB 118 allowed companies to record provisional estimates of the impact of the Tax Act during a one year “measurement period” from the December 22, 2017 enactment date, similar to that used when accounting for business combinations. As a result of the Tax Act, we remeasured deferred tax assets and liabilities using the newly enacted tax rates and recorded a one-time net tax benefit of \$9.4 million in the year ended December 31, 2017. As of December 31, 2018, our accounting for the Tax Act is complete. The provision for income taxes for the year ended December 31, 2018 includes a \$1.1 million increase from the completion of our provisional accounting for the effects of the Tax Act under SAB 118. The increase is due to \$0.6 million of additional expense associated with foreign tax credits, net of associated valuation allowances, and \$0.5 million of additional expense related to the corporate tax rate change impact on return-to-provision adjustments, primarily for depreciation.

The tax effect of temporary differences that give rise to deferred income taxes are as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Accrued compensation	\$ 4,999	\$ 4,280
Accrued workers compensation	10,309	7,980
Net operating losses	34,615	982
Disallowed interest	1,908	—
Capital loss carryforward	10,796	—
Deferred rent	1,552	57
Insurance reserves	3,737	3,276
Loss reserves	2,064	2,852
Tax credit	1,505	2,364
State income taxes	1,045	463
Other	1,600	182
Total deferred tax assets	74,130	22,436
Deferred tax liabilities		
Depreciation and amortization	(56,670)	(34,652)
Prepaid expenses and other	(231)	(755)
Total deferred tax liabilities	(56,901)	(35,407)
Valuation allowance	(23,938)	(600)
Net deferred tax liabilities	\$ (6,709)	\$ (13,571)

As of December 31, 2018, we have remaining U.S. federal and state net operating loss carryforwards of \$20.1 million and \$10.5 million, respectively. In addition, we have net operating loss carryforwards for Australia and Canada of \$2.6 million and \$1.4 million, respectively. Our U.S. federal net operating losses expire beginning in 2031, and our state net operating losses generally expire 20 years after the period in which the net operating loss was incurred.

As of December 31, 2018, our U.S. capital loss and tax credit carryforwards totaled \$10.8 million and \$1.5 million, respectively. The U.S. capital losses expire in 2023. The unused tax credits are primarily comprised of \$1.2 million of foreign tax credits. The foreign tax credit carryforwards begin expiring in 2019.

We claimed \$6.1 million of solar investment tax credits (“ITC”) in 2018. We made an accounting policy election to use the flow through income statement method under which we recognized the benefit of the ITC and the related detriment of tax basis reductions in 2018.

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Valuation allowances on U.S. capital losses, on U.S. state net operating losses, and on Australian net operating losses acquired from Willbros were \$22.7 million as of December 31, 2018. The \$0.6 million valuation allowance related to foreign tax credits as of December 31, 2017, was increased to \$1.2 million in 2018 in connection with completion of the accounting for the Tax Act.

A reconciliation of the beginning and ending and aggregate changes in the gross balances of unrecognized tax benefits is as follows (in thousands):

	December 31,		
	2018	2017	2016
Beginning balance	\$ 592	\$ —	\$ —
Increases in balances for tax positions taken during the current year	146	592	—
Increases in balances for tax positions taken during prior years	2,666	—	—
Settlements and effective settlements with tax authorities	(1,979)	—	—
Lapse of statute of limitations	(95)	—	—
Total	\$ 1,330	\$ 592	\$ —

We recognize accrued interest and penalties related to uncertain tax positions in income tax expense, which were not material for the three years presented. The \$2.7 million increase in balances for tax positions taken during prior years and the \$2.0 million settlements and effective settlements with tax authorities are related to our acquisition of Willbros and did not impact net income for the year ended December 31, 2018.

We believe it is reasonably possible that decreases up to \$0.1 million of unrecognized tax benefits could occur in the next twelve months due to the expiration of statutes of limitation.

Our federal income tax returns are generally no longer subject to examination for tax years before 2015. The statutes of limitation of state and foreign jurisdictions generally vary between 3 to 5 years. Accordingly, our state and foreign income tax returns are generally no longer subject to examination for tax years before 2013.

Note 20—Dividends and Earnings Per Share

We have paid or declared cash dividends during 2016, 2017 and 2018 as follows:

Declaration Date	Record Date	Payable Date	Amount Per Share
February 22, 2016	March 31, 2016	April 15, 2016	\$ 0.055
May 2, 2016	June 30, 2016	July 15, 2016	\$ 0.055
August 3, 2016	September 30, 2016	October 14, 2016	\$ 0.055
November 2, 2016	December 31, 2016	January 16, 2017	\$ 0.055
February 21, 2017	March 31, 2017	April 15, 2017	\$ 0.055
May 5, 2017	June 30, 2017	July 14, 2017	\$ 0.055
August 2, 2017	September 29, 2017	October 14, 2017	\$ 0.055
November 2, 2017	December 29, 2017	January 15, 2018	\$ 0.060
February 21, 2018	March 30, 2018	April 13, 2018	\$ 0.060
May 4, 2018	June 29, 2018	July 13, 2018	\$ 0.060
August 2, 2018	September 28, 2018	October 15, 2018	\$ 0.060
November 2, 2018	December 31, 2018	January 15, 2019	\$ 0.060

The payment of future dividends is contingent upon our revenue and earnings, capital requirements and our general financial condition, as well as contractual restrictions and other considerations deemed relevant by the Board of Directors.

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The table below presents the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 (in thousands, except per share amounts):

	2018	2017	2016
Numerator:			
Net income attributable to Primoris	\$ 77,461	\$ 72,354	\$ 26,723
Denominator:			
Weighted average shares for computation of basic earnings per share	51,350	51,481	51,762
Dilutive effect of shares issued to independent directors	3	3	3
Dilutive effect of restricted stock units (1)	317	257	224
Weighted average shares for computation of diluted earnings per share	51,670	51,741	51,989
Earnings per share attributable to Primoris:			
Basic	\$ 1.51	\$ 1.41	\$ 0.52
Diluted	\$ 1.50	\$ 1.40	\$ 0.51

(1) Represents the effect of the grant of 403,985 shares of Restricted Stock Units and 5,121 vested Dividend Equivalent Units.

Note 21—Stockholders' Equity

Common Stock

We are authorized to issue 90,000,000 shares of \$0.0001 par value common stock, of which 50,715,518 and 51,448,753 shares were issued and outstanding as of December 31, 2018 and 2017, respectively. As of December 31, 2018, there were 369 holders of record of our common stock.

We issued 71,757 shares of common stock in 2018, 65,429 shares of common stock in 2017, and 85,907 shares of common stock in 2016 under our LTR Plan. The shares were purchased by the participants in the LTR Plan with payments made to us of \$1.5 million in 2018, \$1.1 million in 2017, and \$1.4 million in 2016. Our LTR Plan for managers and executives allows participants to use a portion of their annual bonus amount to purchase our common stock at a discount from the market price. The shares purchased in February 2018 were for bonus amounts earned in 2017, and the number of shares was calculated at 75% of the average closing price for December 2017. The shares purchased in February 2017 were for bonus amounts earned in 2016, and the number of shares was calculated at 75% of the average closing price for January 2017. The shares purchased in March 2016 were for bonus amounts earned in 2015, and the number of shares was calculated at 75% of the average market price for December 2015. The shares

purchased have a six month trading restriction.

We issued shares of common stock under the Equity Plan to the non-employee members of the Board of Directors as part of our quarterly compensation provided to the Directors. Shares issued were as follows:

- 10,092 shares in August 2018,
- 10,062 shares in February 2018,
- 11,448 shares in August 2017,
- 11,784 shares in February 2017,
- 11,745 shares in August 2016, and
- 10,450 shares in February 2016.

The shares were fully vested upon issuance and have a one-year trading restriction.

As discussed in Note 17—“Deferred Compensation Agreements and Stock-Based Compensation”, the Board of Directors has granted a total of 403,985 shares of Units under the Equity Plan.

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At December 31, 2018, there were 1,614,639 shares of common stock reserved to provide for the grant and exercise of all future stock option grants, SARS, Units and grants of restricted shares under the Equity Plan. Other than the Units discussed above, there were no stock options, SARS or restricted shares of stock issued or outstanding at December 31, 2018.

Share Repurchase Plan

In May 2018, our Board of Directors authorized a \$5.0 million share repurchase program. In August 2018, our Board of Directors approved an increase to the share repurchase program to \$20.0 million. Under the share repurchase program, we can, depending on market conditions, share price and other factors, acquire shares of our common stock on the open market or in privately negotiated transactions. During the period from August 2018 to December 2018, we purchased and cancelled 825,146 shares of common stock, which in the aggregate equaled \$20.0 million, at an average price of \$24.24 per share.

In February 2017, our Board of Directors authorized a \$5.0 million share repurchase program under which we could, depending on market conditions, share price and other factors, acquire shares of our common stock on the open market or in privately negotiated transactions. During the month of March 2017, we purchased and cancelled 216,350 shares of stock for \$5.0 million at an average cost of \$23.10 per share.

In August 2016, our Board of Directors authorized a share repurchase program under which we, from time to time and depending on market conditions, share price and other factors, could acquire shares of our common stock on the open market or in privately negotiated transactions up to an aggregate purchase price of \$5.0 million. During the month of December 2016, we purchased and cancelled 207,800 shares of stock for \$5.0 million at an average cost of \$24.02 per share.

Preferred Stock

We are authorized to issue 1,000,000 shares of \$0.0001 par value preferred stock. No shares of Preferred Stock were outstanding at December 31, 2018, 2017, and 2016.

Note 22—Selected Quarterly Financial Information (Unaudited)

Selected unaudited quarterly consolidated financial information is presented in the following tables (in thousands, except per share amounts):

	Year Ended December 31, 2018			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 504,119	\$ 648,787	\$ 908,902	\$ 877,670
Gross profit	\$ 44,560	\$ 71,419	\$ 106,505	\$ 103,253
Net income	\$ 4,216	\$ 14,191	\$ 34,805	\$ 34,381
Net income attributable to Primoris	\$ 688	\$ 11,715	\$ 32,691	\$ 32,367
Earnings per share:				
Basic earnings per share	\$ 0.01	\$ 0.23	\$ 0.64	\$ 0.63
Diluted earnings per share	\$ 0.01	\$ 0.23	\$ 0.63	\$ 0.63
Weighted average shares outstanding				
Basic	51,479	51,531	51,403	50,993
Diluted	51,747	51,793	51,735	51,397

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	Year Ended December 31, 2017			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenue	\$ 561,502	\$ 631,165	\$ 608,311	\$ 579,017
Gross profit	\$ 55,053	\$ 84,483	\$ 70,421	\$ 68,477
Net income	\$ 8,512	\$ 22,396	\$ 22,134	\$ 23,808
Net income attributable to Primoris	\$ 7,691	\$ 21,545	\$ 20,597	\$ 22,521
Earnings per share:				
Basic earnings per share	\$ 0.15	\$ 0.42	\$ 0.40	\$ 0.44
Diluted earnings per share	\$ 0.15	\$ 0.42	\$ 0.40	\$ 0.44
Weighted average shares outstanding				
Basic	51,594	51,437	51,441	51,449
Diluted	51,851	51,688	51,707	51,711

Note 23—Subsequent Event

On February 26, 2019, the Board of Directors declared a cash dividend of \$0.06 per common share for stockholders of record as of March 29, 2019, payable on or about April 15, 2019.