

TUTOR PERINI CORP  
Form 10-Q  
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from            to

Commission File Number: 1-6314

Tutor Perini Corporation

(Exact name of registrant as specified in its charter)

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

MASSACHUSETTS                      04-1717070  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization)      Identification No.)

15901 OLDEN STREET, SYLMAR, CALIFORNIA 91342-1093

(Address of principal executive offices)

(Zip code)

(818) 362-8391

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes    No

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

Large accelerated filer

Accelerated filer

Non-Accelerated filer

Smaller reporting company

Emerging growth company

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

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

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

The number of shares of common stock, \$1.00 par value per share, of the registrant outstanding at November 2, 2018 was 50,025,996.

---

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	Page Numbers
<u>Part I. Financial Information:</u>	
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	4
<u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017 (Unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7-29
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30-36
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	36
<u>Part II. Other Information:</u>	
<u>Item 1. Legal Proceedings</u>	36
<u>Item 1A. Risk Factors</u>	36
<u>Item 4. Mine Safety Disclosures</u>	36
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	37
<u>Signature</u>	38

Table of Contents

## PART I. – FINANCIAL INFORMATION

## Item 1. – Financial Statements

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

## UNAUDITED

(in thousands, except per common share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
REVENUE	\$ 1,123,137	\$ 1,199,505	\$ 3,271,378	\$ 3,564,140
COST OF OPERATIONS	(1,012,013)	(1,081,254)	(2,974,546)	(3,240,332)
GROSS PROFIT	111,124	118,251	296,832	323,808
General and administrative expenses	(63,818)	(69,179)	(195,636)	(203,674)
INCOME FROM CONSTRUCTION OPERATIONS	47,306	49,072	101,196	120,134
Other income, net	1,909	967	3,739	42,373
Interest expense	(16,411)	(15,643)	(47,474)	(53,726)
INCOME BEFORE INCOME TAXES	32,804	34,396	57,461	108,781
Provision for income taxes	(7,368)	(9,096)	(15,071)	(37,084)
NET INCOME	25,436	25,300	42,390	71,697
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,164	1,716	8,359	4,253
NET INCOME ATTRIBUTABLE TO TUTOR PERINI CORPORATION	\$ 21,272	\$ 23,584	\$ 34,031	\$ 67,444
BASIC EARNINGS PER COMMON SHARE	\$ 0.43	\$ 0.47	\$ 0.68	\$ 1.36
DILUTED EARNINGS PER COMMON SHARE	\$ 0.42	\$ 0.47	\$ 0.68	\$ 1.33
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING:				

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

BASIC	50,018	49,775	49,927	49,602
DILUTED	50,375	50,587	50,210	50,768

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## UNAUDITED

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET INCOME	\$ 25,436	\$ 25,300	\$ 42,390	\$ 71,697
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Defined benefit pension plan adjustments	365	269	1,100	806
Foreign currency translation adjustments	376	726	(1,432)	1,321
Unrealized gain (loss) in fair value of investments	(129)	12	(1,143)	(12)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	612	1,007	(1,475)	2,115
COMPREHENSIVE INCOME	26,048	26,307	40,915	73,812
LESS: COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,164	1,716	8,359	4,253
COMPREHENSIVE INCOME ATTRIBUTABLE TO TUTOR PERINI CORPORATION	\$ 21,884	\$ 24,591	\$ 32,556	\$ 69,559

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.





Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

## UNAUDITED

(in thousands, except share and per share amounts)	As of September 30, 2018	As of December 31, 2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (\$32,040 and \$53,067 related to variable interest entities (VIEs))	\$ 118,258	\$ 192,868
Restricted cash	3,436	4,780
Restricted investments	53,116	53,014
Accounts receivable (\$75,999 and \$30,003 related to VIEs)	1,325,465	1,265,717
Retainage receivable (\$31,694 and \$12,410 related to VIEs)	492,937	535,939
Costs and estimated earnings in excess of billings	1,085,651	932,758
Other current assets (\$33,033 and \$0 related to VIEs)	130,023	89,316
Total current assets	3,208,886	3,074,392
PROPERTY AND EQUIPMENT (P&E), net of accumulated depreciation of \$345,405 and \$359,188 (net P&E of \$47,559 and \$11,641 related to VIEs)	494,498	467,499
GOODWILL	585,006	585,006
INTANGIBLE ASSETS, NET	86,797	89,454
OTHER ASSETS	49,981	47,772
<b>TOTAL ASSETS</b>	<b>\$ 4,425,168</b>	<b>\$ 4,264,123</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 20,601	\$ 30,748
Accounts payable (\$10,793 and \$19,243 related to VIEs)	611,100	699,971
Retainage payable	213,430	261,820
Billings in excess of cost and estimated earnings (\$261,187 and \$120,952 related to VIEs)	648,287	456,869
Accrued expenses and other current liabilities (\$46,164 and \$0 related to VIEs)	162,102	132,438
Total current liabilities	1,655,520	1,581,846
	780,723	705,528

LONG-TERM DEBT, less current maturities, net of unamortized discounts and debt issuance costs totaling \$37,749 and \$45,631		
DEFERRED INCOME TAXES	106,636	108,504
OTHER LONG-TERM LIABILITIES	148,917	163,465
TOTAL LIABILITIES	2,691,796	2,559,343
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
EQUITY		
Stockholders' Equity:		
Preferred stock - authorized 1,000,000 shares (\$1 par value), none issued	—	—
Common stock - authorized 75,000,000 shares (\$1 par value), issued and outstanding 50,025,996 and 49,781,010 shares	50,026	49,781
Additional paid-in capital	1,098,639	1,084,205
Retained earnings	652,276	622,007
Accumulated other comprehensive loss	(44,193)	(42,718)
Total stockholders' equity	1,756,748	1,713,275
Noncontrolling interests	(23,376)	(8,495)
TOTAL EQUITY	1,733,372	1,704,780
TOTAL LIABILITIES AND EQUITY	\$ 4,425,168	\$ 4,264,123

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## UNAUDITED

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$ 42,390	\$ 71,697
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	30,924	37,806
Amortization of intangible assets	2,657	2,657
Share-based compensation expense	17,779	16,057
Change in debt discounts and deferred debt issuance costs	8,962	14,725
Deferred income taxes	233	642
Loss (gain) on sale of property and equipment	823	(376)
Changes in other components of working capital	(136,113)	(143,213)
Other long-term liabilities	(2,606)	(2,876)
Other, net	190	4,785
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(34,761)</b>	<b>1,904</b>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(64,411)	(9,712)
Proceeds from sale of property and equipment	5,462	1,440
Investment in securities	(13,841)	(48,657)
Proceeds from maturities and sales of investments in securities	14,302	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(58,488)</b>	<b>(56,929)</b>
Cash Flows from Financing Activities:		
Proceeds from debt	1,502,177	1,991,457
Repayment of debt	(1,444,760)	(1,866,072)
Business acquisition related payment	(15,951)	—
Issuance of common stock and effect of cashless exercise	(2,671)	(11,147)

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

Distributions paid to noncontrolling interests	(22,500)	(2,500)
Contributions from noncontrolling interests	1,000	1,250
Debt issuance and extinguishment costs	—	(15,268)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>17,295</b>	<b>97,720</b>
Net increase (decrease) in cash, cash equivalents and restricted cash	(75,954)	42,695
Cash, cash equivalents and restricted cash at beginning of period	197,648	196,607
Cash, cash equivalents and restricted cash at end of period	\$ 121,694	\$ 239,302

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

(1) Basis of Presentation

The Condensed Consolidated Financial Statements do not include footnotes and certain financial information normally presented annually under generally accepted accounting principles in the United States (“GAAP”). Therefore, they should be read in conjunction with the audited consolidated financial statements and the related notes included in Tutor Perini Corporation’s (the “Company”) Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three and nine months ended September 30, 2018 may not be indicative of the results that will be achieved for the full year ending December 31, 2018.

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, including those of a normal recurring nature, necessary to present fairly the Company’s consolidated financial position as of September 30, 2018 and its consolidated statements of income and cash flows for the interim periods presented. Intercompany transactions of consolidated subsidiaries have been eliminated.

(2) Recent Accounting Pronouncements

New accounting pronouncements implemented by the Company during the nine months ended September 30, 2018 are discussed below.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606), as amended by subsequent ASUs (collectively, “ASC 606”). ASC 606 amends the existing accounting standards for revenue recognition and establishes principles for recognizing revenue upon the transfer of promised goods or services to customers based on the expected consideration to be received in exchange for those goods or services. The Company adopted this ASU effective January 1, 2018 using the modified retrospective transition method. The Company recognized the cumulative effect of initially applying the new revenue standard to all contracts not yet completed or substantially completed as of January 1, 2018 as an immaterial reduction to beginning retained earnings. The impact of adoption on the Company’s opening balance

sheet was primarily related to the deferral of costs incurred to fulfill certain contracts that were previously recorded in income in the period incurred, but under the new standard will be capitalized and amortized over the period of contract performance. The prior year comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods; however, certain balances have been reclassified to conform to the current year presentation.

The effect of the changes made to the Company's consolidated January 1, 2018 balance sheet for the adoption of ASC 606 were as follows:

BALANCE SHEET	Balance as of December 31, 2017(a)	Adjustments due to ASC 606	Balance as of January 1, 2018
(in thousands)			
<b>ASSETS</b>			
Accounts receivable(b)	\$ 1,801,656	\$ (535,939)	\$ 1,265,717
Retainage receivable(b)	—	535,939	535,939
Other current assets	89,316	32,773	122,089
<b>LIABILITIES</b>			
Accounts payable(b)	\$ 961,791	\$ (261,820)	\$ 699,971
Retainage payable(b)	—	261,820	261,820
Billings in excess of costs and estimated earnings	456,869	39,785	496,654
Deferred income taxes	108,504	(1,537)	106,967
<b>EQUITY</b>			
Retained earnings	\$ 622,007	\$ (3,762)	\$ 618,245
Noncontrolling interests	(8,495)	(1,714)	(10,209)

(a) Balances as previously reported on the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(b) Prior to the adoption of ASC 606, retainage receivable and payable balances were included within accounts receivable and accounts payable, respectively.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

In accordance with the new revenue standard requirements, the disclosure of the impacts of adoption on the Condensed Consolidated Statement of Income and Condensed Consolidated Balance Sheet were as follows:

	Three Months Ended September 30, 2018		
	As Reported	Balance Without Adoption of ASC 606	Effect of Change
STATEMENT OF INCOME			
(in thousands)			
REVENUE	\$ 1,123,137	\$ 1,122,571	\$ 566
COST OF OPERATIONS	(1,012,013)	(1,011,808)	(205)
GROSS PROFIT	111,124	110,763	361
General and administrative expenses	(63,818)	(63,818)	—
INCOME FROM CONSTRUCTION OPERATIONS	47,306	46,945	361
Other income, net	1,909	1,909	—
Interest expense	(16,411)	(16,411)	—
INCOME BEFORE INCOME TAXES	32,804	32,443	361
Provision for income taxes	(7,368)	(7,303)	(65)
NET INCOME	25,436	25,140	296
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	4,164	4,024	140
NET INCOME ATTRIBUTABLE TO TUTOR PERINI CORPORATION	\$ 21,272	\$ 21,116	\$ 156

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

	Nine Months Ended September 30, 2018		
		Balance Without	
STATEMENT OF INCOME (in thousands)	As Reported	Adoption of ASC 606	Effect of Change
REVENUE	\$ 3,271,378	\$ 3,279,764	\$ (8,386)
COST OF OPERATIONS	(2,974,546)	(2,981,921)	7,375
GROSS PROFIT	296,832	297,843	(1,011)
General and administrative expenses	(195,636)	(195,636)	—
INCOME FROM CONSTRUCTION OPERATIONS	101,196	102,207	(1,011)
Other income, net	3,739	3,739	—
Interest expense	(47,474)	(47,474)	—
INCOME BEFORE INCOME TAXES	57,461	58,472	(1,011)
Provision for income taxes	(15,071)	(15,358)	287
NET INCOME	42,390	43,114	(724)
LESS: NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	8,359	8,379	(20)
NET INCOME ATTRIBUTABLE TO TUTOR PERINI CORPORATION	\$ 34,031	\$ 34,735	\$ (704)



Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

BALANCE SHEET (in thousands)	As of September 30, 2018		
	As Reported	Balance Without Adoption of ASC 606	Effect of Change
<b>ASSETS</b>			
Accounts receivable(a)	\$ 1,325,465	\$ 1,816,399	\$ (490,934)
Retainage receivable(a)	492,937	—	492,937
Costs and estimated earnings in excess of billings	1,085,651	1,089,452	(3,801)
Other current assets	130,023	89,875	40,148
<b>LIABILITIES</b>			
Accounts payable(a)	\$ 611,100	\$ 824,530	\$ (213,430)
Retainage payable(a)	213,430	—	213,430
Billings in excess of costs and estimated earnings	648,287	601,913	46,374
Accrued expenses and other current liabilities	162,102	162,727	(625)
Deferred income taxes	106,636	107,835	(1,199)
<b>EQUITY</b>			
Retained earnings	\$ 652,276	\$ 656,742	\$ (4,466)
Noncontrolling interests	(23,376)	(21,643)	(1,733)

(a) Prior to the adoption of ASC 606, retainage receivable and payable balances were included within accounts receivable and payable, respectively.

The adoption of ASC 606 had no impact on the cash flows used in operating activities in the Company's Condensed Consolidated Statement of Cash Flows.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires restricted cash to be included with cash and cash equivalent balances in the statement of cash flows. The Company retrospectively adopted this ASU effective January 1, 2018. The adoption of this ASU resulted in an increase of net cash used in investing activities of \$33.1 million for the nine months ended September 30, 2017.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU clarifies the scope of modification accounting under Topic 718 with respect to changes to the terms or conditions of a share-based payments award. Under this new guidance, modification accounting would not apply if a change to an award does not affect the total current fair value, vesting conditions or the classification of the award. The Company adopted this ASU effective January 1, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. This ASU provides guidance for companies that may not have completed their accounting for the income tax effects of the Tax Cut and Jobs Act of 2017 (the "Tax Act") in the period of enactment. Staff Accounting Bulletin ("SAB") No. 118 provides for a provisional one year measurement period to finalize the accounting for certain income tax effects related to the Tax Act and requires disclosure of the reasons for incomplete accounting. The Company applied the guidance provided in SAB No. 118 in 2017 and adopted this ASU effective January 1, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

New accounting pronouncements requiring implementation in future periods are discussed below.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), as amended and supplemented by subsequent ASUs (collectively, "ASU 2016-02"). ASU 2016-02 amends the existing guidance in Accounting Standards Codification ("ASC") 840, Leases. This ASU requires, among other things, the recognition of lease right-of-use assets and lease liabilities by lessees for those leases currently classified as operating leases. ASU 2016-02 allows companies to adopt the new standard by applying either a modified retrospective method to the beginning of the earliest period presented in the financial statements or an optional transition method to initially apply the standard on January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company expects to adopt the standard using the optional transition method. The

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

Company has selected its leasing software solution and is in the process of identifying and implementing other changes to its business processes, systems and controls to support adoption of the new standard in 2019. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements but expects the adoption to result in a material increase to its assets and liabilities. The Company does not expect this ASU to have a material impact on its consolidated statements of income or cash flows.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). This ASU simplifies the calculation of goodwill impairment by eliminating Step 2 of the impairment test prescribed by ASC 350, Intangibles—Goodwill and Other. Step 2 requires companies to calculate the implied fair value of their goodwill by estimating the fair value of their assets, other than goodwill, and liabilities, including unrecognized assets and liabilities, following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. The calculated net fair value of the assets would then be compared to the fair value of the reporting unit to determine the implied fair value of goodwill, and to the extent that the carrying value of goodwill was less than the implied fair value, a loss would be recognized. Under ASU 2017-04, however, goodwill is impaired when the calculated fair value of a reporting unit is less than its carrying value, and the impairment charge will equal that difference (i.e., impairment will be calculated at the reporting unit level and there will be no need to estimate the fair value of individual assets and liabilities). This guidance will be effective for any goodwill impairment tests performed in fiscal years beginning after December 15, 2019; however, early adoption is permitted for tests performed on testing dates after January 1, 2017. The Company expects to early adopt this ASU in the fourth quarter of 2018 and does not expect its adoption to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from the Accumulated Other Comprehensive Income. This ASU gives entities the option to reclassify to retained earnings tax effects related to items in accumulated other comprehensive income that the FASB refers to as having been stranded in accumulated other comprehensive income as a result of the Tax Act. Entities can apply the provisions of this ASU either in the period of adoption or retrospectively. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the effect that the adoption of this ASU will have on its consolidated financial statements.

(3) Revenue

Revenue Recognition

The Company derives revenue from long-term construction contracts with public and private customers primarily in the United States and its territories and in certain other international locations. The Company's construction contracts are generally each accounted for as a single unit of account (i.e., as a single performance obligation).

Throughout the execution of construction contracts, the Company and its affiliated entities recognize revenue with the continuous transfer of control to the customer. The customer typically controls the asset under construction by either contractual termination clauses or by the Company's rights to payment for work already performed on the asset under construction that does not have an alternative use for the Company.

Because control transfers over time, revenue is recognized to the extent of progress towards completion of the performance obligations. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services provided. The Company generally uses the cost-to-cost method for its contracts, which measures progress towards completion for each performance obligation based on the ratio of costs incurred to date to the total estimated costs at completion for the respective performance obligation. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Revenue, including estimated fees or profits, is recorded proportionately as costs are incurred. Cost of operations includes labor, materials, subcontractor costs, and other direct and indirect costs, including depreciation and amortization.

Due to the nature of the work required to be performed on many of the Company's performance obligations, estimating total revenue and cost at completion is complex, subject to many variables and requires significant judgment. Assumptions as to the occurrence of future events and the likelihood and amount of variable consideration, including the impact of change orders, claims, contract disputes and the achievement of contractual performance criteria, and award or other incentive fees are made during the contract performance period. The Company estimates variable consideration at the most likely amount it expects to receive. The Company includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration and

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

determination of whether to include estimated amounts in the transaction price are based largely on an assessment of anticipated performance and all information (historical, current and forecasted) that is reasonably available to management.

Disaggregation of Revenue

The following tables disaggregate revenue by end market, customer type and contract type, which the Company believes best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors.

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
(in thousands)		
Civil segment revenue by end market:		
Mass transit	\$ 177,619	\$ 485,841
Bridges	128,240	311,979
Highways	46,553	129,619
Tunneling	33,377	66,009
Other	45,699	103,627
Total Civil segment revenue	\$ 431,488	\$ 1,097,075

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
(in thousands)		
Building segment revenue by end market:		
Health care facilities	\$ 127,219	\$ 320,416
Commercial and industrial facilities	57,505	290,571
Hospitality and gaming	65,744	226,999
Municipal and government	67,003	187,984
Mixed use	40,758	121,348
Education facilities	43,405	108,763
Other	53,858	136,631
Total Building segment revenue	\$ 455,492	\$ 1,392,712

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
(in thousands)		
Specialty Contractors segment revenue by end market:		
Mass transit	\$ 63,457	\$ 216,808
Mixed use	37,587	137,420
Commercial and industrial facilities	48,601	136,892
Education facilities	26,024	77,626
Transportation	17,150	73,154
Condominiums	18,254	64,104
Health care facilities	12,873	43,861
Other	12,211	31,726
Total Specialty Contractors segment revenue	\$ 236,157	\$ 781,591

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

## Three Months Ended September 30, 2018

(in thousands)	Civil	Building	Specialty Contractors	Total
Revenue by customer type:				
State and local agencies	\$ 341,067	\$ 177,377	\$ 99,913	\$ 618,357
Federal agencies	26,944	52,890	12,058	91,892
Private owners	63,477	225,225	124,186	412,888
Total revenue	\$ 431,488	\$ 455,492	\$ 236,157	\$ 1,123,137

## Nine Months Ended September 30, 2018

(in thousands)	Civil	Building	Specialty Contractors	Total
Revenue by customer type:				
State and local agencies	\$ 894,613	\$ 452,918	\$ 312,541	\$ 1,660,072
Federal agencies	67,571	149,464	45,770	262,805
Private owners	134,891	790,330	423,280	1,348,501
Total revenue	\$ 1,097,075	\$ 1,392,712	\$ 781,591	\$ 3,271,378

State and local agencies. The Company's state and local government customers include state transportation departments, metropolitan authorities, cities, municipal agencies, school districts and public universities. Services provided to state and local customers are primarily pursuant to contracts awarded through competitive bidding processes. Construction services for state and local government customers have included mass-transit systems, bridges, highways, judicial and correctional facilities, schools and dormitories, health care facilities, convention centers, parking structures and other municipal buildings. The vast majority of the Company's civil contracting and building construction services are provided in locations throughout the United States and its territories.

Federal agencies. The Company's federal government customers include the U.S. State Department, the U.S. Navy, the U.S. Army Corps of Engineers, the U.S. Air Force and the National Park Service. Services provided to federal agencies are typically pursuant to competitively bid contracts for specific or multi-year assignments that involve new construction or infrastructure repairs or improvements. A portion of revenue from federal agencies is derived from projects in overseas locations.

Private owners. The Company's private customers include real estate developers, health care companies, technology companies, hospitality and gaming resort owners, Native American sovereign nations, public corporations and private universities. Services are provided to private customers through negotiated contract arrangements, as well as through competitive bids.

Most federal, state and local government contracts contain provisions that permit the termination of contracts, in whole or in part, for the convenience of government customers, among other reasons.

(in thousands)	Three Months Ended September 30, 2018			
	Civil	Building	Specialty Contractors	Total
Revenue by contract type:				
Fixed price	\$ 272,996	\$ 91,972	\$ 193,607	\$ 558,575
Guaranteed maximum price	3,025	269,069	18,720	290,814
Unit price	141,917	9,938	7,939	159,794
Cost plus fee and other	13,550	84,513	15,891	113,954
Total revenue	\$ 431,488	\$ 455,492	\$ 236,157	\$ 1,123,137



Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

(in thousands)	Nine Months Ended September 30, 2018			
	Civil	Building	Specialty Contractors	Total
Revenue by contract type:				
Fixed price	\$ 716,826	\$ 267,630	\$ 675,526	\$ 1,659,982
Guaranteed maximum price	11,200	801,537	51,762	864,499
Unit price	332,118	29,526	21,829	383,473
Cost plus fee and other	36,931	294,019	32,474	363,424
Total revenue	\$ 1,097,075	\$ 1,392,712	\$ 781,591	\$ 3,271,378

**Fixed price.** Fixed price or lump sum contracts are most commonly used for projects in the Civil and Specialty Contractors segments and generally commit the Company to provide all of the resources required to complete a project for a fixed sum. Usually, fixed price contracts transfer more risk to the Company, but offer the opportunity for greater profits. Billings on fixed price contracts are typically based on estimated progress against predetermined contractual milestones.

**Guaranteed maximum price (“GMP”).** GMP contracts provide for a cost plus fee arrangement up to a maximum agreed upon price. These contracts place risks on the Company for amounts in excess of the GMP, but may permit an opportunity for greater profits than under cost plus fee contracts through sharing agreements with the owner on any cost savings that may be realized. Services provided by our Building segment to various private customers are often performed under GMP contracts. Billings on GMP contracts typically occur on a monthly basis and are based on actual costs incurred plus a negotiated margin.

**Unit price.** Unit price contracts are most prevalent for projects in the Civil and Specialty Contractors segments and generally commit the Company to provide an estimated or undetermined number of units or components that comprise a project at a fixed price per unit. This approach shifts the risk of estimating the quantity of units required to the

project owner, but the risk of increased cost per unit is borne by the Company, unless otherwise allowed for in the contract. Billings on unit price contracts typically occur on a monthly basis and are based on actual quantity of work performed or completed during the billing period.

Cost plus fee. Cost plus fee contracts are used for many projects in the Building and Specialty Contractors segments. Cost plus fee contracts include cost plus fixed fee contracts and cost plus award fee contracts. Cost plus fixed fee contracts provide for reimbursement of approved project costs plus a fixed fee. Cost plus award fee contracts provide for reimbursement of the project costs plus a base fee, as well as an incentive fee based on cost and/or schedule performance. Cost plus fee contracts serve to minimize the Company's financial risk, but may also limit profits. Billings on cost plus fee contracts typically occur on a monthly basis based on actual costs incurred plus a negotiated margin.

#### Changes in Contract Estimates that Impact Revenue

Changes to the total estimated contract revenue or cost, either due to unexpected events or revisions to management's initial estimates, for a given project are recognized in the period in which they are determined. Net revenue recognized during the three and nine months ended September 30, 2018 related to performance obligations satisfied (or partially satisfied) in prior periods was immaterial.

#### Remaining Performance Obligations

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed and exclude unexercised contract options. As of September 30, 2018, the aggregate amounts of the transaction prices allocated to the remaining performance obligations of the Company's construction contracts are \$4.2 billion, \$2.1 billion and \$1.7 billion for the Civil, Building and Specialty Contractors segments, respectively. The Company typically recognizes revenue on Civil segment projects over a period of three to five years, whereas for projects in the Building and Specialty Contractors segments, the Company typically recognizes revenue over a period of one to three years.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

## (4) Contract Assets and Liabilities

Contract assets include amounts due under retainage provisions, costs and estimated earnings in excess of billings and capitalized contract costs. The amounts as included on the Condensed Consolidated Balance Sheets consist of the following:

(in thousands)	As of September 30, 2018	As of January 1, 2018
Retainage receivable	\$ 492,937	\$ 535,939
Costs and estimated earnings in excess of billings:		
Claims	672,858	549,849
Unapproved change orders	349,286	296,591
Other unbilled costs and profits	63,507	86,318
Total costs and estimated earnings in excess of billings	1,085,651	932,758
Capitalized contract costs	41,221	32,773
Total contract assets	\$ 1,619,809	\$ 1,501,470

Retainage receivable represents amounts invoiced to customers where payments have been partially withheld pending the completion of certain milestones, satisfaction of other contractual conditions or the completion of the project. Retainage agreements vary from project to project and balances could be outstanding for several months or years depending on a number of circumstances such as contract-specific terms, project performance and other variables that may arise as the Company makes progress towards completion.

Costs and estimated earnings in excess of billings represent the excess of contract costs and profits (or contract revenue) over the amount of contract billings to date and are classified as a current asset. Costs and estimated earnings in excess of billings result when either: 1) the appropriate contract revenue amount has been recognized over time in accordance with ASC 606, but a portion of the revenue recorded cannot be billed currently due to the billing terms defined in the contract, or 2) costs are incurred related to certain claims and unapproved change orders. Claims occur when there is a dispute regarding both a change in the scope of work and the price associated with that change. Unapproved change orders occur when a change in the scope of work results in additional work being performed before the parties have agreed on the corresponding change in the contract price. The Company routinely estimates recovery related to claims and unapproved change orders as a form of variable consideration at the most likely amount it expects to receive and to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Claims and unapproved change orders are billable upon the agreement and resolution between the contractual parties and after the execution of contractual amendments. Increases in claims and unapproved change orders typically result from costs being incurred against existing or new positions; decreases normally result from resolutions and subsequent billings. As discussed in Note 9, Commitments and Contingencies, the resolution of these claims and unapproved change orders may require litigation or other forms of dispute resolution proceedings. Other unbilled costs and profits are billable in accordance with the billing terms of each of the existing contractual arrangements and, as such, the timing of contract billing cycles can cause fluctuations in the balance of unbilled costs and profits. Ultimate resolution of other unbilled costs and profits typically involves incremental progress toward contractual requirements or milestones.

Capitalized contract costs primarily represent costs to fulfill a contract that (1) directly relate to an existing or anticipated contract, (2) generate or enhance resources that will be used in satisfying performance obligations in the future and (3) are expected to be recovered through the contract, and are included in other current assets. Capitalized contract costs are generally expensed to the associated contract over the period of anticipated use on the project. During the three and nine months ended September 30, 2018, \$4.0 million and \$12.2 million of previously capitalized contract costs were amortized and recognized as expense on the related contracts, respectively.

Contract liabilities include amounts owed under retainage provisions and billings in excess of costs and estimated earnings. The amount as reported on the Condensed Consolidated Balance Sheets consist of the following:

(in thousands)	As of September 30, 2018	As of January 1, 2018
Retainage payable	\$ 213,430	\$ 261,820
Billings in excess of costs and estimated earnings	648,287	496,654
Total contract liabilities	\$ 861,717	\$ 758,474



Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

Retainage payable represents amounts invoiced to the Company by subcontractors where payments have been partially withheld pending the completion of certain milestones, other contractual conditions or upon the completion of the project. Generally, retainage payable is not remitted to subcontractors until the associated retainage receivable from customers is collected.

Billings in excess of costs and estimated earnings represent the excess of contract billings to date over the amount of contract costs and profits (or contract revenue) recognized to date. The balance may fluctuate depending on the timing of contract billings and the recognition of contract revenue. Revenue recognized during the three and nine months ended September 30, 2018 and included in the opening billings in excess of costs and estimated earnings balances for each period totaled \$251.4 million and \$341.2 million, respectively.

## (5) Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows:

	As of September 30, 2018	As of December 31, 2017
(in thousands)		
Cash and cash equivalents available for general corporate purposes	\$ 53,927	\$ 94,713
Joint venture cash and cash equivalents	64,331	98,155
Cash and cash equivalents	118,258	192,868
Restricted cash	3,436	4,780

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

Total cash, cash equivalents and restricted cash \$ 121,694 \$ 197,648

Cash equivalents include short-term, highly liquid investments with maturities of three months or less when acquired. Cash and cash equivalents consist of amounts available for the Company's general purposes, the Company's proportionate share of cash held by the Company's unconsolidated joint ventures and 100% of amounts held by the Company's consolidated joint ventures. In both cases, cash held by joint ventures is available only for joint venture-related uses, including future distributions to joint venture partners.

Amounts included in restricted cash are primarily held as collateral to secure insurance-related contingent obligations, such as insurance claim deductibles, in lieu of letters of credit.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

## (6) Earnings Per Common Share (EPS)

Basic EPS and diluted EPS are calculated by dividing net income attributable to Tutor Perini Corporation by the following: for basic EPS, the weighted-average number of common shares outstanding during the period; and for diluted EPS, the sum of the weighted-average number of both outstanding common shares and potentially dilutive securities, which for the Company can include restricted stock units, unexercised stock options and the Convertible Notes, as defined in Note 8, Financial Commitments. In accordance with ASC 260, Earnings Per Share, the settlement of the principal amount of the Convertible Notes has no impact on diluted EPS because the Company has the intent and ability to settle the principal amount in cash. The Company calculates the effect of the potentially dilutive restricted stock units and stock options using the treasury stock method.

(in thousands, except per common share data)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income attributable to Tutor Perini Corporation	\$ 21,272	\$ 23,584	\$ 34,031	\$ 67,444
Weighted-average common shares outstanding, basic	50,018	49,775	49,927	49,602
Effect of dilutive restricted stock units and stock options	357	812	283	1,166
Weighted-average common shares outstanding, diluted	50,375	50,587	50,210	50,768
Net income attributable to Tutor Perini Corporation per common share:				
Basic	\$ 0.43	\$ 0.47	\$ 0.68	\$ 1.36
Diluted	\$ 0.42	\$ 0.47	\$ 0.68	\$ 1.33
Anti-dilutive securities not included above	2,107	912	2,765	752

## (7) Income Taxes



The Company's effective income tax rate for the three and nine months ended September 30, 2018 was 22.5% and 26.2%, respectively, and 26.4% and 34.1% for the three and nine months ended September 30, 2017, respectively. The effective tax rates for the 2018 periods reflect the reduction in the federal statutory income tax rate from 35% to 21% effective January 1, 2018 as a result of the Tax Act and were favorably impacted by the release of tax liabilities as a result of expirations of statutes of limitations and earnings attributable to noncontrolling interests for which income taxes are not the responsibility of the Company, partially offset by unfavorable rate impacts of share-based compensation-related changes. The effective tax rates for the three and nine months ended September 30, 2017 were favorably impacted by the release of tax liabilities as a result of the expiration of statutes of limitations, earnings attributable to noncontrolling interests and favorable share-based compensation-related changes. The effective rates for the periods discussed above also reflect provisions for state income taxes.

(8) Financial Commitments

Long-Term Debt

Long-term debt as of September 30, 2018 and December 31, 2017 consisted of the following:

(in thousands)	As of September 30, 2018	As of December 31, 2017
2017 Senior Notes	\$ 493,319	\$ 492,734
Convertible Notes	168,932	161,635
2017 Credit Facility	78,000	—
Equipment financing and mortgages	56,227	76,820
Other indebtedness	4,846	5,087
Total debt	801,324	736,276
Less: Current maturities	20,601	30,748
Long-term debt, net	\$ 780,723	\$ 705,528

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

The following table reconciles the outstanding debt balance to the reported debt balances as of September 30, 2018 and December 31, 2017:

	As of September 30, 2018			As of December 31, 2017		
	Outstanding Long-Term Debt	Discount and Issuance Costs	Long-Term Debt, as reported	Outstanding Long-Term Debt	Discount and Issuance Costs	Long-Term Debt, as reported
(in thousands)						
2017 Senior Notes	\$ 500,000	\$ (6,681)	\$ 493,319	\$ 500,000	\$ (7,266)	\$ 492,734
Convertible Notes	200,000	(31,068)	168,932	200,000	(38,365)	161,635

The unamortized issuance costs related to the 2017 Credit Facility were \$5.1 million and \$6.2 million as of September 30, 2018 and December 31, 2017, respectively, and are included in other assets in the Condensed Consolidated Balance Sheets.

## 2017 Senior Notes

On April 20, 2017, the Company issued \$500 million in aggregate principal amount of 6.875% Senior Notes due 2025 (the “2017 Senior Notes”) in a private placement. Interest on the 2017 Senior Notes is payable in arrears semi-annually in May and November of each year, beginning in November 2017.

Prior to May 1, 2020, the Company may redeem the 2017 Senior Notes at a redemption price equal to 100% of their principal amount plus a “make-whole” premium described in the indenture. In addition, prior to May 1, 2020, the Company may redeem up to 40% of the original aggregate principal amount of the notes at a redemption price of

106.875% of their principal amount with the proceeds received by the Company from any offering of the Company's equity. After May 1, 2020, the Company may redeem the 2017 Senior Notes at specified redemption prices described in the indenture. Upon a change of control, holders of the 2017 Senior Notes may require the Company to repurchase all or part of the 2017 Senior Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

The 2017 Senior Notes are senior unsecured obligations of the Company and are guaranteed by substantially all of the Company's existing and future subsidiaries that also guarantee obligations under the Company's 2017 Credit Facility, as defined below. In addition, the indenture for the 2017 Senior Notes provides for customary covenants, including events of default and restrictions on the payment of dividends and share repurchases.

### 2017 Credit Facility

On April 20, 2017, the Company entered into a credit agreement (the "2017 Credit Facility") with SunTrust Bank as Administrative Agent, Swing Line Lender and L/C Issuer and a syndicate of other lenders. The 2017 Credit Facility provides for a \$350 million revolving credit facility (the "2017 Revolver") and a sublimit for the issuance of letters of credit and swingline loans up to the aggregate amount of \$150 million and \$10 million, respectively, both maturing on April 20, 2022, unless any of the Convertible Notes, as defined below, are outstanding on December 17, 2020, in which case all such borrowings will mature on December 17, 2020 (subject to certain further exceptions). In addition, the 2017 Credit Facility permits additional borrowings in an aggregate amount of \$150 million, which can be in the form of increased capacity on the 2017 Revolver or the establishment of one or more term loans.

Borrowings under the 2017 Revolver bear interest, at the Company's option, at a rate equal to (a) the London Interbank Offered Rate ("LIBOR") plus a margin of between 1.50% and 3.00% or (b) a base rate (determined by reference to the highest of (i) the administrative agent's prime lending rate, (ii) the federal funds effective rate plus 50 basis points, (iii) the LIBOR rate for a one-month interest period plus 100 basis points and (iv) 0%), plus a margin of between 0.50% and 2.00%, in each case based on the Consolidated Leverage Ratio (as defined in the 2017 Credit Facility). In addition to paying interest on outstanding principal under the 2017 Credit Facility, the Company will pay a commitment fee to the lenders under the 2017 Revolver in respect of the unutilized commitments thereunder. The Company will pay customary letter of credit fees. If an event of default occurs and is continuing, the otherwise applicable margin and letter of credit fees will be increased by 2% per annum. The weighted-average annual interest rate on borrowings under the 2017 Revolver was approximately 4.64% during the nine months ended September 30, 2018.

The 2017 Credit Facility contains customary covenants for credit facilities of this type, including maximum consolidated leverage ratios ranging from 4.00:1.00 to 3.25:1.00 over the life of the facility and a minimum consolidated fixed charge coverage ratio of 1.25:1.00. Substantially all of the Company's subsidiaries unconditionally guarantee the obligations of the Company under the 2017

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

Credit Facility; additionally, the obligations are secured by a lien on all personal property of the Company and its subsidiaries guaranteeing these obligations.

As of September 30, 2018, there was \$272 million available under the 2017 Revolver, and the Company had not utilized the 2017 Credit Facility for letters of credit. The Company was in compliance with the financial covenants under the 2017 Credit Facility as of September 30, 2018.

Repurchase and Redemption of 2010 Senior Notes and Termination of 2014 Credit Facility

On April 20, 2017, the Company used proceeds from the 2017 Senior Notes and 2017 Revolver to repurchase or redeem its 2010 Senior Notes (\$300 million of 7.625% Senior Notes due November 1, 2018), to pay off its 2014 Credit Facility (\$300 million revolving credit facility and a \$250 million term loan, both maturing on May 1, 2018), and to pay accrued but unpaid interest and fees. In addition, the indenture governing the 2010 Senior Notes was satisfied and discharged, and the Company terminated the 2014 Credit Facility.

Convertible Notes

On June 15, 2016, the Company issued \$200 million of 2.875% Convertible Senior Notes due June 15, 2021 (the “Convertible Notes”) in a private placement offering. The Convertible Notes are unsecured obligations and do not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company. The Convertible Notes bear interest at a rate of 2.875% per year, payable in cash semi-annually in June and December.

Prior to January 15, 2021, the Convertible Notes will be convertible only under the following circumstances: (1) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000

principal amount of Convertible Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (2) if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion rate of 33.0579 (or \$39.32) on each applicable trading day or (3) upon the occurrence of specified corporate events. On or after January 15, 2021 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

The Convertible Notes will be convertible at an initial conversion rate of 33.0579 shares of the Company's common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$30.25. The conversion rate will be subject to adjustment for some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, the Company is required to increase, in certain circumstances, the conversion rate for a holder who elects to convert their Convertible Notes in connection with such a corporate event including customary conversion rate adjustments in connection with a "make-whole fundamental change" described in the indenture. Upon conversion, and at the Company's election, the Company may satisfy its conversion obligation by paying or delivering, as applicable, cash, shares of its common stock or a combination of cash and shares of its common stock. As of September 30, 2018, the conversion provisions of the Convertible Notes have not been triggered.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

## Interest Expense

Interest expense as reported in the Condensed Consolidated Statements of Income consists of the following:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cash interest expense:				
Interest on 2017 Senior Notes	\$ 8,594	\$ 8,593	\$ 25,781	\$ 15,373
Interest on 2017 Credit Facility	2,596	2,035	6,300	3,526
Interest on Convertible Notes	1,437	1,438	4,312	4,313
Interest on 2010 Senior Notes	—	—	—	6,926
Interest on 2014 Credit Facility	—	—	—	4,455
Other interest	736	802	2,119	2,495
Cash portion of loss on extinguishment	—	—	—	1,913
Total cash interest expense	13,363	12,868	38,512	39,001
Non-cash interest expense:(a)				
Amortization of discount and debt issuance costs on Convertible Notes	2,490	2,268	7,298	6,646
Amortization of debt issuance costs on 2017 Credit Facility	360	322	1,080	603
Amortization of debt issuance costs on 2017 Senior Notes	198	185	584	326
Amortization of debt issuance costs on 2014 Credit Facility	—	—	—	1,703
Amortization of discount and debt issuance costs on 2010 Senior Notes	—	—	—	308
Non-cash portion of loss on extinguishment	—	—	—	5,139
Total non-cash interest expense	3,048	2,775	8,962	14,725
Total interest expense	\$ 16,411	\$ 15,643	\$ 47,474	\$ 53,726

(a)

The combination of cash and non-cash interest expense produces effective interest rates that are higher than contractual rates. Accordingly, the effective interest rates for the 2017 Senior Notes and the Convertible Notes were 7.13% and 9.39%, respectively, for the nine months ended September 30, 2018.

(9) Commitments and Contingencies

The Company and certain of its subsidiaries are involved in litigation and various forms of dispute resolution, and are contingently liable for commitments and performance guarantees arising in the ordinary course of business. In addition, other activities inherent to the Company's business may result in litigation or dispute resolution proceedings when there is a disagreement regarding a change in the scope of work and/or the price associated with that change. In accordance with ASC 606, the Company makes assessments of these types of disputes on a routine basis and estimates and records recovery related to these disputes at the most likely amount it expects to receive, as discussed further in Note 3, Revenue, and Note 4, Contract Assets and Liabilities. These assessments require judgments concerning matters such as litigation developments and outcomes, the anticipated outcome of negotiations and the estimated cost of resolving such disputes. In addition, because most contingencies are resolved over long periods of time, assets and liabilities may change in the future due to various factors. Management believes that, based on current information and discussions with the Company's legal counsel, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Several matters are in the litigation and dispute resolution processes that include characteristics which management consider to be other than ordinary routine contract performance related issues. The following discussion provides a background and current status of such material matters.

Long Island Expressway/Cross Island Parkway Matter

The Company reconstructed the Long Island Expressway/Cross Island Parkway Interchange ("LIE Project") for the New York State Department of Transportation ("NYSDOT"). The \$130 million project was substantially completed in January 2004 and was accepted by NYSDOT as complete in February 2006. The Company incurred significant added costs in completing its work and suffered

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

extended schedule costs due to numerous design errors, undisclosed utility conflicts, lack of coordination with local agencies and other interferences for which the Company believes NYSDOT is responsible.

In March 2011, the Company opened a case with the New York State Court of Claims against NYSDOT related to the LIE Project. In May 2011, NYSDOT filed a motion to dismiss the Company's claim on the grounds that the Company had not provided required documentation for project closeout and filing of a claim. In September 2011, the Company reached agreement on final payment with the Comptroller's Office on behalf of NYSDOT, which resulted in an amount of \$0.5 million payable to the Company and formally closed out the project allowing the Company to re-file its claim. In March 2012, the Company filed its formal Verified Claim seeking \$50.7 million in damages. In May 2012, NYSDOT served its answer and asserted counterclaims in the amount of \$151 million alleging fraud in the inducement and punitive damages related to alleged violations of the disadvantaged business enterprise ("DBE") requirements for the project. The Court subsequently ruled that NYSDOT's counterclaims may only be asserted as a defense and offset to the Company's claims and not as affirmative claims. In November 2014, the Appellate Division First Department affirmed the dismissal of NYSDOT's affirmative counterclaims. In June 2018, following additional summary judgment motions, the Court granted the Company's motion to dismiss NYSDOT's affirmative defenses, which eliminated the use of NYSDOT's counterclaim of \$151 million as a defense to the claims of the Company. In October 2018, NYSDOT filed a notice of appeal. A trial date for the appeal has not been set.

Management has made an estimate of the total anticipated recovery on this project, and such estimate is included in revenue recorded to date. To the extent new facts become known or the final recovery included in the claim settlement varies from the estimate, the impact of the change will be reflected in the consolidated financial statements at that time.

Fontainebleau Matter

Desert Mechanical, Inc. ("DMI") and Fisk Electric Company ("Fisk"), wholly owned subsidiaries of the Company, were subcontractors on the Fontainebleau Project in Las Vegas ("Fontainebleau"), a hotel/casino complex with approximately 3,800 rooms. In June 2009, Fontainebleau filed for bankruptcy protection, under Chapter 11 of the U.S. Bankruptcy Code, in the Southern District of Florida.



DMI and Fisk filed liens in Nevada for approximately \$44 million, representing unreimbursed costs to date and lost profits, including anticipated profits. Other unaffiliated subcontractors have also filed liens. In June 2009, DMI filed suit against Turnberry West Construction, Inc., the general contractor, in the 8th Judicial District Court, Clark County, Nevada, and in May 2010, the court entered an order in favor of DMI for approximately \$45 million.

In January 2010, the Bankruptcy Court approved the sale of the property to Icahn Nevada Gaming Acquisition, LLC, and this transaction closed in February 2010. As a result of a July 2010 ruling relating to certain priming liens, approximately \$125 million was set aside from this sale that is available for distribution to satisfy the creditor claims based on seniority. At that time, the total estimated sustainable lien amount was approximately \$350 million. The project lender filed suit against the mechanic's lien claimants, including DMI and Fisk, alleging that certain mechanic's liens are invalid and that all mechanic's liens are subordinate to the lender's claims against the property. The Nevada Supreme Court ruled in October 2012 in an advisory opinion at the request of the Bankruptcy Court that lien priorities would be determined in favor of the mechanic lien holders under Nevada law.

In October 2013, a settlement was reached by and among the Statutory Lienholders and the other interested parties. The Bankruptcy Court appointed a mediator to facilitate the execution of that settlement agreement, but the parties were unable to settle. During the third quarter of 2017, DMI filed a motion seeking permission to file an action in Nevada to enforce the Company's lien rights; the motion was granted by the Bankruptcy Court.

Management has made an estimate of the total anticipated recovery on this project, and such estimate is included in revenue recorded to date. To the extent new facts become known or the final recovery included in the claim settlement varies from the estimate, the impact of the change will be reflected in the consolidated financial statements at that time.

#### Westgate Planet Hollywood Matter

Tutor-Saliba Corporation ("TSC"), a wholly owned subsidiary of the Company, was contracted to construct a timeshare development project in Las Vegas, which was substantially completed in December 2009. The Company's claims against the owner, Westgate Planet Hollywood Las Vegas, LLC ("WPH"), relate to unresolved owner change orders and other claims. The Company filed a lien on the project in the amount of \$23.2 million and filed its complaint with the District Court, Clark County, Nevada. Several

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

subcontractors have also recorded liens, some of which have been released by bonds and some of which have been released as a result of subsequent payment. WPH has posted a mechanic's lien release bond for \$22.3 million.

WPH filed a cross-complaint alleging non-conforming and defective work for approximately \$51 million, primarily related to alleged defects, misallocated costs and liquidated damages. WPH revised the amount of their counterclaims to approximately \$45 million.

Following multiple post-trial motions, final judgment was entered in this matter on March 20, 2014. TSC was awarded total judgment in the amount of \$19.7 million on its breach of contract claim, which includes an award of interest up through the date of judgment, plus attorney's fees and costs. WPH was awarded total judgment in the amount of \$3.1 million on its construction defect claims, which includes interest up through the date of judgment. WPH and its Sureties have filed a notice of appeal. TSC has filed a notice of appeal on the defect award. In July 2014, the District Court ordered WPH to post an additional supersedeas bond on appeal, in the amount of \$1.7 million, in addition to the lien release bond of \$22.3 million, which increases the security up to \$24.0 million. In May 2017, the Nevada Supreme Court issued its ruling on the appeal by WPH and its Sureties. With only minor adjustments, the Nevada Supreme Court affirmed the District Court's judgment, and following further proceedings in the District Court, the anticipated final recovery to the Company is estimated to exceed \$20 million, including interest and recovery of certain attorneys' fees and costs of which the Company collected more than \$16 million in 2017. In December 2017 and in January 2018, the District Court issued several post-appeal orders confirming its previous rulings. Some of those matters have been appealed and are expected to be resolved in the first half of 2019. Once resolved, TSC will seek an order from the District Court seeking a remaining \$4 million in interest and fees associated with the matter.

The Company does not expect the ultimate resolution of this matter to have a material effect on its consolidated financial statements. Management has made an estimate of the total anticipated recovery on this project and such estimate is included in revenue recorded to date. To the extent new facts become known or the final recovery included in the claim settlement varies from the estimate, the impact of the change will be reflected in the consolidated financial statements at that time.

Five Star Electric Matter

In the third quarter of 2015, Five Star Electric Corp. (“Five Star”), a wholly owned subsidiary of the Company that was acquired in 2011, entered into a tolling agreement (which has since expired) related to an ongoing investigation being conducted by the United States Attorney’s Office for the Eastern District of New York (“USAO EDNY”). Five Star has been cooperating with the USAO EDNY since late June 2014, when it was first made aware of the investigation, and has provided information requested by the government related to its use of certain minority-owned, women-owned, small and disadvantaged business enterprises and certain of Five Star’s employee compensation, benefit and tax practices.

As of September 30, 2018, the Company cannot predict the ultimate outcome of the investigation and cannot reasonably estimate the potential loss or range of loss that Five Star or the Company may incur or the impact of the results of the investigation on Five Star or the Company.

#### Alaskan Way Viaduct Matter

In January 2011, Seattle Tunnel Partners (“STP”), a joint venture between Dragados USA, Inc. and the Company, entered into a design-build contract with the Washington State Department of Transportation (“WSDOT”) for the construction of a large diameter bored tunnel in downtown Seattle, King County, Washington to replace the Alaskan Way Viaduct, also known as State Route 99.

The construction of the large diameter bored tunnel required the use of a tunnel boring machine (“TBM”). In December 2013, the TBM struck a steel pipe, installed by WSDOT as a well casing for an exploratory well. The TBM was damaged and was required to be shut down for repair. STP has asserted that the steel pipe casing was a differing site condition that WSDOT failed to properly disclose. The Disputes Review Board mandated by the contract to hear disputes issued a decision finding the steel casing was a Type I differing site condition. WSDOT has not accepted that finding.

The TBM was insured under a Builder’s Risk Insurance Policy (the “Policy”) with Great Lakes Reinsurance (UK) PLC and a consortium of other insurers (the “Insurers”). STP submitted the claims to the Insurers and requested interim payments under the Policy. The Insurers refused to pay and denied coverage. In June 2015, STP filed a lawsuit in the King County Superior Court, State of Washington (“Washington Superior Court”) seeking declaratory relief concerning contract interpretation, as well as damages as a result of the Insurers’ breach of their obligations under the terms of the Policy. WSDOT is deemed a plaintiff since WSDOT is an insured under the Policy and had filed its own claim for damages. Hitachi Zosen (“Hitachi”), the manufacturer of the TBM, has also joined the case as a plaintiff for costs incurred to repair the damages to the TBM. In September 2018, rulings received on pre-trial

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

motions effectively limited potential recovery under the Policy for STP, WSDOT and Hitachi. The Company intends to appeal these court orders. To the extent we are unable to recover damages under the Policy, we can still seek recovery against WSDOT and Hitachi as described in the next paragraph. Trial has been continued from October 2018 to February 2019.

In March 2016, WSDOT filed a complaint against STP in Thurston County Superior Court for breach of contract alleging STP's delays and failure to perform and declaratory relief concerning contract interpretation. STP filed its answer to WSDOT's complaint and filed a counterclaim against WSDOT and Hitachi. Trial has been continued from April 2019 to October 2019.

As of September 30, 2018, the Company has concluded that the potential for a material adverse financial impact due to the Insurers' denial of coverage and WSDOT's legal actions is neither probable nor remote, and the potential loss or range of loss is not reasonably estimable. With respect to STP's claims against the Insurers, WSDOT and Hitachi, management has included an estimate of the total anticipated recovery, concluded to be both probable and reliably estimable, in receivables or costs and estimated earnings in excess of billings recorded to date. To the extent new facts become known or the final recoveries vary from the estimate, the impact of the change will be reflected in the financial statements at that time.

(10) Share-Based Compensation

During the second quarter of 2018, the Company adopted the Tutor Perini Corporation Omnibus Incentive Plan (the "Plan"), which effected the merger of the Company's previous incentive compensation plans. Similar to its previous plans, the Plan provides for various types of share-based grants, including restricted and unrestricted stock units and stock options. As of September 30, 2018, there were 880,465 shares of common stock available for grant under the Company's Plan. During the first nine months of 2018 and 2017, the Company issued the following share-based instruments: (1) restricted stock units of 614,000 and 1,055,000 with weighted-average fair values per share of \$25.19 and \$30.03, respectively; (2) stock options of 579,000 and 530,000 with weighted-average fair values per share of \$11.45 and \$13.11, respectively, and weighted-average per share exercise prices of \$23.99 and \$24.64, respectively. In addition, during the nine months ended September 30, 2018 and 2017, the Company issued 115,420 and 99,155

unrestricted stock units with a weighted-average fair value per share of \$21.26 and \$26.26, respectively.

The fair value of restricted and unrestricted stock units is based on the closing price of the Company's common stock on the New York Stock Exchange on the date of the grant and the fair value of stock options is based on the Black-Scholes model. The fair value of certain performance-based awards are estimated taking into account the features of such awards. The fair value of stock options granted during the first nine months of 2018 was determined using the Black-Scholes model based on the following weighted-average assumptions: (i) expected life of 5.1 years, (ii) expected volatility of 42.31%, (iii) risk-free rate of 2.57%, and (iv) no quarterly dividends.

For the three and nine months ended September 30, 2018, the Company recognized, as part of general and administrative expenses, costs for share-based payment arrangements totaling \$5.7 million and \$17.8 million, respectively, and \$5.6 million and \$16.1 million for the three and nine months ended September 30, 2017, respectively. As of September 30, 2018, the balance of unamortized share-based compensation expense was \$30.9 million, which will be recognized over a weighted-average period of 2.1 years.

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

## (11) Employee Pension Plans

The Company has a defined benefit pension plan and an unfunded supplemental retirement plan. Effective September 1, 2004, all benefit accruals under these plans were frozen; however, the current vested benefit was preserved. The pension disclosure presented below includes aggregated amounts for both of the Company's plans.

The following table sets forth the net periodic benefit cost for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest cost	\$ 883	\$ 975	\$ 2,649	\$ 2,925
Expected return on plan assets	(1,077)	(1,088)	(3,231)	(3,264)
Amortization of net loss	513	456	1,539	1,368
Other	213	213	639	639
Net periodic benefit cost	\$ 532	\$ 556	\$ 1,596	\$ 1,668

The Company contributed \$2.1 million and \$2.0 million to its defined benefit pension plan during the nine-month periods ended September 30, 2018 and 2017, respectively, and expects to contribute an additional \$0.7 million by the end of 2018.

## (12) Fair Value Measurements

The fair value hierarchy established by ASC 820, Fair Value Measurement, prioritizes the use of inputs used in valuation techniques into the following three levels:

- Level 1 inputs are observable quoted prices in active markets for identical assets or liabilities
- Level 2 inputs are observable, either directly or indirectly, but are not Level 1 inputs
- Level 3 inputs are unobservable

The following fair value hierarchy table presents the Company's assets that are measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017:

(in thousands)	As of September 30, 2018				As of December 31, 2017			
	Fair Value Hierarchy				Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents(a)	\$ 118,258	\$ —	\$ —	\$ 118,258	\$ 192,868	\$ —	\$ —	\$ 192,868
Restricted cash(a)	3,436	—	—	3,436	4,780	—	—	4,780
Restricted investments(b)	—	53,116	—	53,116	—	—	—	—
Investments in lieu of retainage(c)	62,341	1,189	—	63,530	69,891	2,405	—	72,296
Other investments(b)	—	4,611	—	4,611	—	—	—	—
<b>Total</b>	<b>\$ 184,035</b>	<b>\$ 58,916</b>	<b>\$ —</b>	<b>\$ 242,951</b>	<b>\$ 267,539</b>	<b>\$ 2,405</b>	<b>\$ —</b>	<b>\$ 269,944</b>

(a) Includes money market funds with original maturity dates of three months or less.

(b) During the second quarter of 2018, the Company reclassified its restricted investments and other investments from the held-to-maturity category to the available-for-sale category as a result of a change in management's investment strategy. At the time of the transfer, the securities had an aggregate amortized cost of \$60.1 million and an immaterial aggregate unrealized loss. Restricted investments and other investments, as of September 30, 2018, consist of investments in corporate debt securities of \$31.4 million and U.S. government agency securities of \$26.3 million, and are valued based on pricing models, which are determined from a compilation of primarily observable market information, broker quotes in non-active markets or similar assets and are therefore classified as Level 2 Assets. As of December 31, 2017, restricted investments and other investments consisted of investments in U.S. agency securities of \$26.1 million and corporate debt securities of \$33.0 million. The maturities for restricted investments and other investments range from one month to five years. The amortized cost of these securities at September 30, 2018 and December 31, 2017 was not materially different from the fair value. Other investments are included in other current assets on the Condensed Consolidated Balance Sheets. As of December 31, 2017, the Company's held-to-maturity restricted investments and other investments had an amortized cost of \$59.6 million and fair value of \$59.1 million.

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(c) Investments in lieu of retainage are included in retainage receivable and as of September 30, 2018 are comprised of money market funds of \$62.3 million and municipal bonds of \$1.2 million, the majority of which are rated A3 or better. The fair values of the money market funds are measured using quoted market prices; therefore, they are classified as Level 1 assets. The fair values of municipal bonds are measured using readily available pricing sources for comparable instruments; therefore, they are classified as Level 2 assets. As of December 31, 2017, investments in lieu of retainage consisted of money market funds of \$69.9 million and municipal bonds of \$2.4 million. The amortized cost of these available-for-sale securities at September 30, 2018 and December 31, 2017 was not materially different from the fair value.

The Company did not have material transfers between Levels 1 and 2 during the nine months ended September 30, 2018 or 2017.

The carrying values of receivables, payables and other amounts arising out of normal contract activities, including retainage, which may be settled beyond one year, are estimated to approximate fair value. Of the Company's long-term debt, the fair value of the 2017 Senior Notes was \$517.5 million and \$537.5 million as of September 30, 2018 and December 31, 2017, respectively. The fair value of the Convertible Notes was \$202.4 million and \$222.2 million as of September 30, 2018 and December 31, 2017, respectively. The fair values of the 2017 Senior Notes and Convertible Notes were determined using Level 1 inputs, specifically current observable market prices. The reported value of the Company's remaining borrowings as of September 30, 2018 and December 31, 2017 approximates fair value.

(13) Variable Interest Entities (VIE)

The Company may form joint ventures or partnerships with third parties for the execution of single contracts or projects. In accordance with ASC 810, Consolidation ("ASC 810"), the Company assesses its partnerships and joint ventures at inception to determine if any meet the qualifications of a VIE. The Company considers a joint venture a VIE if either (a) the total equity investment is not sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) characteristics of a controlling financial interest are missing (either the ability to make decisions through voting or other rights, the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity), or (c) the voting rights of the equity holders are not proportional to their obligations to absorb the expected losses of the entity and/or their rights to receive the expected



residual returns of the entity, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights. Upon the occurrence of certain events outlined in ASC 810, the company reassesses its initial determination of whether the joint venture is a VIE.

ASC 810 also requires the Company to determine whether it is the primary beneficiary of the VIE. The Company concludes that it is the primary beneficiary and consolidates the VIE if the Company has both (a) the power to direct the economically significant activities of the VIE and (b) the obligation to absorb losses of, or the right to receive benefits from, the VIE that could potentially be significant to the VIE. The Company considers the contractual agreements that define the ownership structure, distribution of profits and losses, risks, responsibilities, indebtedness, voting rights and board representation of the respective parties in determining if the Company is the primary beneficiary. The Company also considers all parties that have direct or implicit variable interests when determining whether it is the primary beneficiary. In accordance with ASC 810, management's assessment of whether the Company is the primary beneficiary of a VIE is performed continuously.

As of September 30, 2018, the Company had unconsolidated VIE-related current assets and liabilities of \$8.0 million and \$7.8 million, respectively, included in the Company's Condensed Consolidated Balance Sheet. As of December 31, 2017, the Company had unconsolidated VIE-related current assets and liabilities of \$0.8 million and \$0.8 million, respectively, included in the Company's Condensed Consolidated Balance Sheet. The Company's maximum exposure to loss as a result of its investments in unconsolidated VIEs is typically limited to the aggregate of the carrying value of the investment and future funding commitments. There were no future funding requirements for the unconsolidated VIEs as of September 30, 2018.

As of September 30, 2018, the Company's Condensed Consolidated Balance Sheet included current and noncurrent assets of \$172.8 million and \$47.6 million, respectively, as well as current liabilities of \$320.1 million, related to the operations of its consolidated VIEs. As of December 31, 2017, the Company's Condensed Consolidated Balance Sheet included current and noncurrent assets of \$95.5 million and \$11.6 million, respectively, as well as current liabilities of \$140.7 million related to the operations of its consolidated VIEs.

Below is a discussion of some of the Company's more significant or unique VIEs.

The Company established a joint venture to construct the Purple Line Section 2 Extension project, a \$1.4 billion mass-transit project in Los Angeles, California. The Company has a 75% interest in the joint venture with the remaining 25% held by O&G Industries, Inc.

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

The joint venture was initially financed with contributions from the partners and, per the terms of the joint venture agreement, the partners may be required to provide additional capital contributions in the future. The Company has determined that this joint venture is a VIE for which the Company is the primary beneficiary.

The Company also established a joint venture with Parsons Corporation (“Parsons”) to construct the Newark Airport Terminal One Design-Build project, a \$1.4 billion transportation infrastructure project in Newark, New Jersey. The Company has an 80% interest in the joint venture with the remaining 20% held by Parsons. The joint venture was initially financed with contributions from the partners and, per the terms of the joint venture agreement, the partners may be required to provide additional capital contributions in the future. The Company has determined that this joint venture is a VIE for which the Company is the primary beneficiary.

(14) Other Comprehensive Income (Loss)

ASC 220, Comprehensive Income, establishes standards for reporting and displaying comprehensive income and its components in the consolidated financial statements. The Company reports the change in pension benefit plan assets/liabilities, cumulative foreign currency translation and change in fair value of investments as components of accumulated other comprehensive income (loss) (“AOCI”).

The tax effects of the components of other comprehensive income (loss) for the three months ended September 30, 2018 and 2017 are as follows:

Three Months Ended  
September 30, 2018

Three Months Ended  
September 30, 2017

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

(in thousands)	Tax		Net-of-Tax Amount	Tax		Net-of-Tax Amount
	Before-Tax Amount	(Expense) Benefit		Before-Tax Amount	(Expense) Benefit	
Other comprehensive income (loss):						
Defined benefit pension plan adjustments	\$ 513	\$ (148)	\$ 365	\$ 456	\$ (187)	\$ 269
Foreign currency translation adjustments	519	(143)	376	1,232	(506)	726
Unrealized gain (loss) in fair value of investments	(173)	44	(129)	21	(9)	12
Total other comprehensive income (loss)	859	(247)	612	1,709	(702)	1,007
Total other comprehensive income (loss) attributable to Tutor Perini Corporation	\$ 859	\$ (247)	\$ 612	\$ 1,709	\$ (702)	\$ 1,007

The tax effects of the components of other comprehensive income (loss) for the nine months ended September 30, 2018 and 2017 are as follows:

(in thousands)	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Other comprehensive income (loss):						
Defined benefit pension plan adjustments	\$ 1,539	\$ (439)	\$ 1,100	\$ 1,368	\$ (562)	\$ 806
Foreign currency translation adjustment	(2,034)	602	(1,432)	2,242	(921)	1,321
Unrealized gain (loss) in fair value of investments	(1,468)	325	(1,143)	(20)	8	(12)
Total other comprehensive income (loss)	(1,963)	488	(1,475)	3,590	(1,475)	2,115
Total other comprehensive income (loss) attributable to Tutor Perini Corporation	\$ (1,963)	\$ 488	\$ (1,475)	\$ 3,590	\$ (1,475)	\$ 2,115

Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

The changes in AOCI balances by component (after tax) during the three and nine months ended September 30, 2018 are as follows:

	Three Months Ended September 30, 2018			
	Defined Benefit Pension Plan	Foreign Currency Translation	Unrealized Gain (Loss) in Fair Value of Investments, Net	Accumulated Other Comprehensive Loss
(in thousands)				
Attributable to Tutor Perini Corporation:				
Balance as of June 30, 2018	\$ (38,706)	\$ (5,399)	\$ (700)	\$ (44,805)
Other comprehensive income (loss) before reclassifications	—	376	(145)	231
Amounts reclassified from AOCI	365	—	16	381
Total other comprehensive income (loss)	365	376	(129)	612
Balance as of September 30, 2018	\$ (38,341)	\$ (5,023)	\$ (829)	\$ (44,193)

	Nine Months Ended September 30, 2018			
	Defined Benefit Pension Plan	Foreign Currency Translation	Unrealized Gain (Loss) in Fair Value of Investments, Net	Accumulated Other Comprehensive Loss
(in thousands)				

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

Attributable to Tutor Perini Corporation:

Balance as of December 31, 2017	\$ (39,441)	\$ (3,591)	\$ 314	\$ (42,718)
Other comprehensive income (loss) before reclassifications	—	(1,432)	(1,159)	(2,591)
Amounts reclassified from AOCI	1,100	—	16	1,116
Total other comprehensive income (loss)	1,100	(1,432)	(1,143)	(1,475)
Balance as of September 30, 2018	\$ (38,341)	\$ (5,023)	\$ (829)	\$ (44,193)

The changes in AOCI balance by component (after tax) for the three and nine months ended September 30, 2017 are as follows:

(in thousands)	Three Months Ended September 30, 2017			
	Defined Benefit Pension Plan	Foreign Currency Translation	Unrealized Gain (Loss) in Fair Value of Investments, Net	Accumulated Other Comprehensive Loss
Attributable to Tutor Perini Corporation:				
Balance as of June 30, 2017	\$ (40,328)	\$ (4,269)	\$ 292	\$ (44,305)
Other comprehensive income (loss) before reclassifications	—	726	12	738
Amounts reclassified from AOCI	269	—	—	269
Total other comprehensive income (loss)	269	726	12	1,007
Balance as of September 30, 2017	\$ (40,059)	\$ (3,543)	\$ 304	\$ (43,298)

(in thousands)	Nine Months Ended September 30, 2017			
	Defined Benefit Pension Plan	Foreign Currency Translation	Unrealized Gain (Loss) in Fair Value of Investments, Net	Accumulated Other Comprehensive Loss
Attributable to Tutor Perini Corporation:				
Balance as of December 31, 2016	\$ (40,865)	\$ (4,864)	\$ 316	\$ (45,413)
Other comprehensive income (loss) before reclassifications	—	1,321	(12)	1,309
Amounts reclassified from AOCI	806	—	—	806
Total other comprehensive income (loss)	806	1,321	(12)	2,115
Balance as of September 30, 2017	\$ (40,059)	\$ (3,543)	\$ 304	\$ (43,298)



Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(15) Business Segments

The Company offers general contracting, pre-construction planning and comprehensive project management services, including planning and scheduling of manpower, equipment, materials and subcontractors required for the timely completion of a project in accordance with the terms and specifications contained in a construction contract. The Company also offers self-performed construction services: site work, concrete forming and placement, steel erection, electrical, mechanical, plumbing, and HVAC (heating, ventilation and air conditioning). As described below, the Company's business is conducted through three segments: Civil, Building and Specialty Contractors. These segments are determined based on how the Company's Chairman and Chief Executive Officer (chief operating decision maker) aggregates business units when evaluating performance and allocating resources.

The Civil segment specializes in public works construction and the replacement and reconstruction of infrastructure. The civil contracting services include construction and rehabilitation of highways, bridges, tunnels, mass-transit systems, and water management and wastewater treatment facilities.

The Building segment has significant experience providing services for private and public works customers in a number of specialized building markets, including: high-rise residential, hospitality and gaming, transportation, health care, commercial and government offices, sports and entertainment, education, correctional facilities, biotech, pharmaceutical, industrial and high-tech.

The Specialty Contractors segment specializes in electrical, mechanical, plumbing, HVAC, fire protection systems and pneumatically placed concrete for a full range of civil and building construction projects in the industrial, commercial, hospitality and gaming, and mass-transit end markets. This segment provides the Company with unique strengths and capabilities that allow the Company to position itself as a full-service contractor with greater control over scheduled work, project delivery, and cost and risk management.

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

The following tables set forth certain reportable segment information relating to the Company's operations for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	Reportable Segments			Total	Corporate	Consolidated Total
	Civil	Building	Specialty Contractors			
Three Months Ended September 30, 2018						
Total revenue	\$ 479,581	\$ 457,304	\$ 236,157	\$ 1,173,042	\$ —	\$ 1,173,042
Elimination of intersegment revenue	(48,093)	(1,812)	—	(49,905)	—	(49,905)
Revenue from external customers	\$ 431,488	\$ 455,492	\$ 236,157	\$ 1,123,137	\$ —	\$ 1,123,137
Income (loss) from construction operations	\$ 41,282	\$ 8,853	\$ 11,561	\$ 61,696	\$ (14,390)(a)	\$ 47,306
Capital expenditures	\$ 15,364	\$ 277	\$ 70	\$ 15,711	\$ 397	\$ 16,108
Depreciation and amortization(b)	\$ 8,031	\$ 488	\$ 1,081	\$ 9,600	\$ 2,817	\$ 12,417
Three Months Ended September 30, 2017						
Total revenue	\$ 458,487	\$ 500,420	\$ 310,137	\$ 1,269,044	\$ —	\$ 1,269,044
Elimination of intersegment revenue	(62,667)	(6,872)	—	(69,539)	—	(69,539)
Revenue from external customers	\$ 395,820	\$ 493,548	\$ 310,137	\$ 1,199,505	\$ —	\$ 1,199,505
Income (loss) from construction operations	\$ 38,144	\$ 14,058	\$ 14,575	\$ 66,777	\$ (17,705)(a)	\$ 49,072
Capital expenditures	\$ 1,248	\$ 36	\$ 81	\$ 1,365	\$ 164	\$ 1,529
Depreciation and amortization(b)	\$ 5,213	\$ 502	\$ 1,166	\$ 6,881	\$ 2,824	\$ 9,705

(a) Consists primarily of corporate general and administrative expenses.

(b) Depreciation and amortization is included in income from construction operations.



Table of Contents

## TUTOR PERINI CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## UNAUDITED

(in thousands)	Reportable Segments				Corporate	Consolidated Total
	Civil	Building	Specialty Contractors	Total		
Nine Months Ended September 30, 2018						
Total revenue	\$ 1,266,595	\$ 1,395,896	\$ 781,591	\$ 3,444,082	\$ —	\$ 3,444,082
Elimination of intersegment revenue	(169,520)	(3,184)	—	(172,704)	—	(172,704)
Revenue from external customers	\$ 1,097,075	\$ 1,392,712	\$ 781,591	\$ 3,271,378	\$ —	\$ 3,271,378
Income (loss) from construction operations(a)	\$ 93,560	\$ 27,814	\$ 26,250	\$ 147,624	\$ (46,428)(b)	\$ 101,196
Capital expenditures	\$ 61,912	\$ 1,147	\$ 704	\$ 63,763	\$ 648	\$ 64,411
Depreciation and amortization(c)	\$ 20,356	\$ 1,458	\$ 3,299	\$ 25,113	\$ 8,468	\$ 33,581
Nine Months Ended September 30, 2017						
Total revenue	\$ 1,363,850	\$ 1,520,356	\$ 907,690	\$ 3,791,896	\$ —	\$ 3,791,896
Elimination of intersegment revenue	(190,873)	(36,883)	—	(227,756)	—	(227,756)
Revenue from external customers	\$ 1,172,977	\$ 1,483,473	\$ 907,690	\$ 3,564,140	\$ —	\$ 3,564,140
Income (loss) from construction operations	\$ 128,176	\$ 25,035	\$ 15,330	\$ 168,541	\$ (48,407)(b)	\$ 120,134
Capital expenditures	\$ 8,665	\$ 184	\$ 374	\$ 9,223	\$ 489	\$ 9,712
Depreciation and amortization(c)	\$ 26,767	\$ 1,533	\$ 3,551	\$ 31,851	\$ 8,612	\$ 40,463

(a) During the nine months ended September 30, 2018, the Company recorded a charge of \$17.8 million in income from construction operations (an after-tax impact of \$12.8 million, or \$0.25 per diluted share), which was primarily non-cash, as a result of the unexpected outcome of an arbitration decision related to a subcontract back charge dispute on a Civil segment project in New York that was completed in 2013.

- (b) Consists primarily of corporate general and administrative expenses.
- (c) Depreciation and amortization is included in income from construction operations.

A reconciliation of segment results to the consolidated income before income taxes is as follows:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Income from construction operations	\$ 47,306	\$ 49,072	\$ 101,196	\$ 120,134
Other income, net	1,909	967	3,739	42,373
Interest expense	(16,411)	(15,643)	(47,474)	(53,726)
Income before income taxes	\$ 32,804	\$ 34,396	\$ 57,461	\$ 108,781

Total assets by segment are as follows:

(in thousands)	As of	As of
	September	December
	30, 2018	31, 2017
Civil	\$ 2,597,653	\$ 2,452,108
Building	936,365	909,207
Specialty Contractors	760,017	767,807
Corporate and other(a)	131,133	135,001
Total assets	\$ 4,425,168	\$ 4,264,123

- (a) Consists principally of cash, equipment, tax-related assets and insurance-related assets, offset by the elimination of assets related to intersegment revenue.

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UNAUDITED

(16) Related Party Transactions

Raymond R. Oneglia, Vice Chairman of O&G Industries, Inc. (“O&G”), is a director of the Company. The Company occasionally forms construction project joint ventures with O&G. Currently, the Company has a 75% interest in a joint venture with O&G (as the 25% interest holder) to construct the Purple Line Section 2 Extension project in Los Angeles, California. O&G may provide equipment and services to these joint ventures on customary trade terms; there were no material payments made by the joint venture to O&G during the three and nine months ended September 30, 2018 and 2017.

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

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

The following discusses our financial position as of September 30, 2018 and the results of our operations for the three and nine months ended September 30, 2018 and should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes contained herein as well as the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2017.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and our future results, which are intended to be covered by the safe harbor provision for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. Words such as "achieve," "anticipate," "assumes," "believes," "continue," "could," "estimate," "expects," "forecast," "hope," "intend," "may," "plan," "potential," "predict," "should," "will," "would," variations of such words and expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Although such statements are based on currently available financial and economic data as well as management's estimates and expectations, forward-looking statements are inherently uncertain and involve risks and uncertainties that could cause our actual results to differ materially from what may be inferred from the forward-looking statements. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors potentially contributing to such differences include, among others:

- Revisions of estimates of contract risks, revenue or costs; the timing of new awards; or the pace of project execution may result in losses or lower than anticipated profits;
- Unfavorable outcomes of existing or future litigation or dispute resolution proceedings against project owners, subcontractors or suppliers, as well as failure to promptly recover significant working capital invested in projects subject to such matters;
- The requirement to perform extra, or change order, work resulting in disputes or claims or adversely affecting our working capital, profits and cash flows;
  - Risks and other uncertainties associated with assumptions and estimates used to prepare financial statements;
- Increased competition and failure to secure new contracts;
- Client cancellations of, or reductions in scope under, contracts reported in our backlog;

- A significant slowdown or decline in economic conditions;
- Failure to meet contractual schedule requirements, which could result in higher costs and reduced profits or, in some cases, exposure to financial liability for liquidated damages and/or damages to customers;
- Impairment of our goodwill or other indefinite-lived intangible assets;
- Failure to meet our obligations under our debt agreements;
- Inability to retain key members of our management, to hire and retain personnel required to complete projects or implement succession plans for key officers;
- The impact of inclement weather conditions on projects;
- Failure of our joint venture partners to perform their venture obligations, which could impose additional financial and performance obligations on us, resulting in reduced profits or losses;
  - Decreases in the level of government spending for infrastructure and other public projects;
- Possible systems and information technology interruptions;
- Failure to comply with laws and regulations related to government contracts;
- Conversion of our outstanding Convertible Notes that could dilute ownership interests of existing stockholders and could adversely affect the market price of our common stock;
  - Potential dilutive impact of our Convertible Notes in our diluted earnings per share calculation; and
- Economic, political and other risks, including civil unrest, security issues, labor conditions, corruption and other unforeseeable events in countries where we do business, resulting in unanticipated losses.

#### Executive Overview

Consolidated revenue for the three and nine months ended September 30, 2018 was \$1.1 billion and \$3.3 billion compared to \$1.2 billion and \$3.6 billion, respectively, for the same periods in 2017. The decrease for both current-year periods was because revenue generated from project execution activities for new projects starting up did not fully offset reduced revenue from projects that have completed or are nearing completion. The primary driver for the revenue decline in both periods was the second quarter 2018 completion of a large technology project in California.

Table of Contents

Income from construction operations for the three and nine months ended September 30, 2018 was \$47.3 million and \$101.2 million, respectively, compared to \$49.1 million and \$120.1 million for the same periods in 2017. For the three months ended September 30, 2018, the decrease was primarily due to the overall volume reduction. For the nine-month period, the decrease was primarily due to reduced contributions from lower volume on the technology project mentioned above, lower contributions from a tunnel project in Washington that is nearing completion and the impact of delays on a mass-transit project in California. The nine-month period also included a pre-tax charge in the first quarter of 2018 totaling \$17.8 million, which was attributable to the unexpected outcome of an arbitration decision on a completed Civil segment project in New York. This charge was partially offset by the absence of prior-year unfavorable adjustments totaling \$13.1 million in the Specialty Contractors segment, none of which were individually material.

The effective tax rate for the three and nine months ended September 30, 2018 was 22.5% and 26.2% respectively, compared to 26.4% and 34.1% for the three and nine months ended September 30, 2017. The decreases in the 2018 rates were primarily due to the reduction in the federal statutory income tax rate effective January 1, 2018. See Corporate, Tax and Other Matters below for a detailed discussion of the changes in the effective tax rate.

Earnings per diluted share (“diluted EPS”) for the three and nine months ended September 30, 2018 were \$0.42 and \$0.68, respectively, compared to \$0.47 and \$1.33 for three and nine months ended September 30, 2017. The primary drivers for the lower diluted EPS in the current-year periods were the factors discussed above that resulted in reduced income from construction operations, partially offset by the lower effective tax rate in 2018. The prior year nine-month period was also favorably impacted by a gain associated with a \$37.0 million cash settlement (\$0.43 of diluted EPS) received during the second quarter for litigation related to the Company’s purchase of auction-rate securities nearly a decade earlier.

Consolidated new awards for the three and nine months ended September 30, 2018 were \$0.9 billion and \$4.5 billion, respectively, compared to \$1.1 billion and \$4.8 billion for the same periods in 2017. The Building segment was the largest contributor to the new award activity in the third quarter of 2018, and the Building and Civil segments were both major contributors to the new award activity during the first nine months of 2018.

Consolidated backlog as of September 30, 2018 was \$8.5 billion, an increase of 17%, compared to \$7.3 billion at December 31, 2017. The significant backlog growth experienced since the end of 2017 was attributable to a large volume of new Building and Civil segment awards, including the \$1.4 billion Newark Liberty International Airport Terminal One project in New Jersey, the \$410 million Purple Line Extension Section 3 Tunneling project in California and a \$215 million office building project, also in California. As of September 30, 2018, the mix of backlog by segment was approximately 55% for Civil, 25% for Building and 20% for Specialty Contractors.

The following table presents the Company's backlog by business segment, reflecting changes from December 31, 2017 to September 30, 2018:

	Backlog at December 31, 2017	New Awards(a)	Revenue Recognized	Backlog at September 30, 2018(b)
(in millions)				
Civil	\$ 4,118.2	\$ 1,630.5	\$ (1,097.1)	\$ 4,651.6
Building	1,701.4	1,814.1	(1,392.7)	2,122.8
Specialty Contractors	1,463.8	1,059.6	(781.6)	1,741.8
Total	\$ 7,283.4	\$ 4,504.2	\$ (3,271.4)	\$ 8,516.2

- (a) New awards consist of the original contract price of projects added to backlog plus or minus subsequent changes to the estimated total contract price of existing contracts.
- (b) Backlog may differ from the transaction prices allocated to the remaining performance obligations as disclosed in Note 3 of the Notes to the Condensed Consolidated Financial Statements. Backlog includes awards for which a contract has not yet been executed or a notice to proceed has not been issued, but for which there are no remaining major uncertainties that the project will proceed (e.g., adequate funding is in place).

The outlook for the Company's growth over the next several years remains favorable, particularly in the Civil and Specialty Contractors segments, although the pace of growth could be moderated by project delays or the timing of project ramp-up activities. We anticipate that additional significant new awards may benefit these segments based on long-term capital spending plans by state, local and federal customers, as well as bipartisan support for infrastructure investments. Voters in numerous states approved dozens of long-term transportation funding measures in recent elections totaling approximately \$200 billion in long-term funding. The largest of these were in Los Angeles County, where Measure M, a half-cent sales tax increase, was approved and is expected to generate \$120 billion of funding over 40 years and in Seattle, Washington, where Sound Transit 3 was passed and is expected to generate \$54 billion of funding over 25 years. In addition, the Trump Administration has proposed a significant infrastructure investment program. Furthermore, several large, long-duration civil infrastructure programs with which we are already involved are progressing, such as California's High-Speed Rail system and New York City's East Side Access project. Planning and permitting activities continue on Amtrak's Northeast Corridor Improvements, including the Gateway Program, which is expected to eventually bring new

Table of Contents

rail tunnels beneath the Hudson River to connect service between New Jersey and New York's Penn Station. Finally, favorable interest rates and capital costs are anticipated to sustain strong demand and continued spending by public and private customers on infrastructure projects.

For a more detailed discussion of operating performance of each business segment, corporate general and administrative expense and other items, see Results of Segment Operations, Corporate, Tax and Other Matters and Liquidity and Capital Resources below.

## Results of Segment Operations

The results of our Civil, Building and Specialty Contractors segments are discussed below.

## Civil Segment

Revenue and income from construction operations for the Civil segment are summarized as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 431.5	\$ 395.8	\$ 1,097.1	\$ 1,173.0
Income from construction operations	41.3	38.1	93.6	128.2

Revenue for the three months ended September 30, 2018 increased 9% compared to the same period in 2017. For the nine months ended September 30, 2018, revenue decreased 6% compared to the same period in 2017. The growth for the third quarter was principally due to increased project execution activities related to a new joint venture tunnel project in British Columbia and a new airport terminal project in New Jersey, partially offset by reduced activity on a bridge project in New York that is nearing completion. For the nine-month period, the decrease was principally driven by reduced project activities on certain mass-transit projects in California.



Income from construction operations increased 8% for the third quarter and decreased 27% for the nine months ended September 30, 2018 compared to the same periods in 2017. The increase for the third quarter was primarily due to the factors mentioned above that drove the changes in revenue. For the nine-month period, the decrease was due to lower contributions from the aforementioned mass-transit projects and the \$17.8 million charge in the first quarter of 2018 discussed above in the Executive Overview.

Operating margin was 9.6% and 8.5%, respectively, for the three and nine months ended September 30, 2018 compared to 9.6% and 10.9% for the same periods in 2017. The margin decrease for the nine-month period was primarily attributable to the factors mentioned above that drove the changes in revenue and income from construction operations.

New awards in the Civil segment totaled \$346 million and \$1.6 billion for the three and nine months ended September 30, 2018 compared to \$463 million and \$2.8 billion, respectively, for the same periods in 2017. New awards in the third quarter of 2018 included a \$121 million water tunnel project in California and an \$82 million aircraft maintenance facility and hangar project in Guam.

Backlog for the Civil segment was \$4.7 billion as of September 30, 2018, up 8% compared to \$4.3 billion as of September 30, 2017. The segment continues to experience strong demand reflected in a large pipeline of prospective projects and substantial anticipated funding from various voter-approved transportation measures and public agencies' long-term spending plans. The Civil segment is well-positioned to capture its share of these prospective projects. The segment, however, continues to face considerable competition, including occasional aggressive bids from competitors.

#### Building Segment

Revenue and income from construction operations for the Building segment are as follows:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 455.5	\$ 493.5	\$ 1,392.7	\$ 1,483.5

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

Income from construction operations	8.9	14.1	27.8	25.0
-------------------------------------	-----	------	------	------

Revenue for the three and nine months ended September 30, 2018 decreased 8% and 6%, respectively, compared to the same periods in 2017. The decrease for both periods was primarily due to a net reduction in project execution activities on projects in California, with the biggest contributor being a large technology project that was completed in the second quarter of 2018.

Table of Contents

Income from construction operations for the three and nine months ended September 30, 2018 decreased 37% and increased 11%, respectively, compared to the same periods in 2017. The decrease for the three-month period was primarily driven by the current year completion of the aforementioned large technology project in California, which contributed greater project profit in the prior-year third quarter than it did during current-quarter closeout activities. In comparing the nine-month periods, the increase was largely due to contributions from certain projects in Texas, New Jersey and California, which more than offset reduced contributions from the completed technology project.

Operating margin was 1.9% and 2.0% for the three and nine months ended September 30, 2018, respectively, compared to 2.8% and 1.7% for the same periods in 2017. The margin changes for both periods were mostly attributable to the above-mentioned factors that drove the changes in income from construction operations.

New awards in the Building segment totaled \$493 million and \$1.8 billion for the three and nine months ended September 30, 2018, respectively, compared to \$284 million and \$1.1 billion for the same periods in 2017. New awards in the third quarter of 2018 included incremental funding of \$78 million and \$53 million, respectively, for a health care project and a technology office project, both in California, a \$68 million industrial revitalization project in Mississippi and a \$43 million airport terminal facility expansion project in Florida.

Backlog for the Building segment was \$2.1 billion as of September 30, 2018, up 33% compared to \$1.6 billion as of September 30, 2017. The backlog growth was primarily due to the award of the Newark Airport Terminal One project in the first quarter of 2018. The Building segment continues to have a large volume of prospective projects, some of which have already been bid and are expected to be selected and awarded by customers in 2018. Elevated demand is expected to continue due to ongoing customer spending supported by a still favorable interest rate environment. The Building segment is well-positioned to capture its share of prospective projects based on its strong customer relationships and long-term reputation for excellence in delivering high-quality projects on time and within budget.

Specialty Contractors Segment

Revenue and income from construction operations for the Specialty Contractors segment are as follows:

Three Months Ended September	Nine Months Ended September
---------------------------------	--------------------------------

Edgar Filing: TUTOR PERINI CORP - Form 10-Q

(in millions)	30,		30,	
	2018	2017	2018	2017
Revenue	\$ 236.2	\$ 310.1	\$ 781.6	\$ 907.7
Income (loss) from construction operations	11.6	14.6	26.3	15.3

Revenue for the three and nine months ended September 30, 2018 decreased 24% and 14%, respectively, compared to the same periods in 2017. The decrease for both periods was primarily due to reduced project execution activities on various electrical projects in New York. A mass-transit project in California also contributed to the revenue declines for both periods.

Income from construction operations decreased 21% in the third quarter of 2018 and increased 72% for the nine months ended September 30, 2018 compared to the prior-year periods. The decrease for the third quarter of 2018 was primarily due to the overall volume reduction. Results for the nine-month period of 2018 reflected decreased volume, as well as the absence of prior-year unfavorable adjustments on certain mechanical projects in New York totaling \$13.1 million in the aggregate, none of which were individually material.

Operating margin was 4.9% and 3.4% for the three and nine months ended September 30, 2018, respectively, compared to 4.7% and 1.7% for the same periods in 2017. The margin changes for both periods were largely attributable to the aforementioned reasons that caused the changes in income from construction operations.

New awards in the Specialty Contractors segment totaled \$110 million and \$1.1 billion for the three and nine months ended September 30, 2018 compared to \$394 million and \$929 million, respectively, for the three and nine months ended September 30, 2017. New awards in the third quarter of 2018 included approximately \$58 million for various electrical projects in Florida, Texas and Louisiana.

Backlog for the Specialty Contractors segment was \$1.7 billion as of September 30, 2018, up 9% compared to \$1.6 billion as of September 30, 2017. The Specialty Contractors segment continues to have a substantial volume of prospective projects with demand increasing because of strong public and private sector spending on civil and building projects. The Specialty Contractors segment is increasingly focused on servicing the Company's growing backlog of large Civil and Building segment projects, but remains well-positioned to capture its share of projects for other contractors and government agencies, leveraging the size and scale of our business units that operate in New York, Texas, Florida and California and the strong reputation held by these business units for high-quality work on large, complex projects.

Table of Contents

## Corporate, Tax and Other Matters

## Corporate General and Administrative Expenses

Corporate general and administrative expenses were \$15.0 million and \$46.9 million during the three and nine months ended September 30, 2018 compared to \$17.7 million and \$48.4 million during the three and nine months ended September 30, 2017. The decrease for the three-month period was primarily due to lower compensation-related expenses.

## Other Income, Net, Interest Expense and Income Tax Provision

(in millions)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Other income, net	\$ 1.9	\$ 1.0	\$ 3.7	\$ 42.4
Interest expense	(16.4)	(15.6)	(47.5)	(53.7)
Provision for income taxes	(7.4)	(9.1)	(15.1)	(37.1)

Other income, net decreased \$38.7 million for the nine months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily because the prior-year period included a \$37.0 million gain associated with a cash settlement received during the second quarter of 2017 for litigation related to the Company's purchase of auction-rate securities nearly a decade earlier.

Interest expense decreased \$6.2 million for the nine months ended September 30, 2018 compared to the same period in 2017. The decrease was primarily due to extinguishment costs recorded in the second quarter of 2017 related to our April 2017 debt restructuring transactions.

The Company's effective income tax rate for the three and nine months ended September 30, 2018 was 22.5% and 26.2%, respectively, compared to 26.4% and 34.1% for the three and nine months ended September 30, 2017. The effective tax rates for the 2018 periods were favorably impacted by the reduction in the federal statutory income tax rate from 35% to 21% effective January 1, 2018 as a result of the Tax Cut and Jobs Act of 2017. The effective tax

rates for the three and nine months ended September 30, 2018 and 2017 were favorably impacted by the release of tax liabilities as a result of the expiration of statutes of limitations, with a larger benefit recognized in the 2017 periods. For a further discussion of income taxes, refer to Note 7 of the Notes to the Condensed Consolidated Financial Statements.

## Liquidity and Capital Resources

Liquidity is provided by available cash and cash equivalents, cash generated from operations, credit facilities and access to capital markets. We have a committed line of credit totaling \$350 million, which may be used for revolving loans, letters of credit and/or general purposes. We believe that cash generated from operations, along with our unused credit capacity of \$272 million and cash position, is sufficient to fund any working capital needs for the next 12 months.

## Cash and Working Capital

Cash and cash equivalents were \$118.3 million as of September 30, 2018 compared to \$192.9 million as of December 31, 2017. Cash immediately available for general corporate purposes was \$53.9 million and \$94.7 million as of September 30, 2018 and December 31, 2017, respectively, with the remainder being our proportionate share of cash held by our unconsolidated joint ventures and also amounts held by our consolidated joint ventures, which in both cases were available only for joint venture-related uses, including distributions to joint venture partners. In addition, our restricted cash and restricted investments, held primarily to secure insurance-related contingent obligations, totaled \$56.6 million as of September 30, 2018 compared to \$57.8 million as of December 31, 2017.

During the nine months ended September 30, 2018, net cash used in operating activities was \$34.8 million (net cash generated by operating activities in the third quarter totaled \$27.6 million) due primarily to investments in project working capital that exceeded cash generated from earnings sources. The change in working capital primarily reflects increases in costs and estimated earnings in excess of billings and accounts receivable, as well as decreases in accounts payable and retainage payable due to the timing of payments to vendors and subcontractors, partially offset by an increase in billings in excess of cost and estimated earnings and a decrease in retainage receivable. For the nine months ended September 30, 2017, net cash provided by operating activities was \$1.9 million due primarily to cash generated from earnings sources, mostly offset by increased investment in project working capital.

The \$36.7 million change resulting from the comparison of cash used in operating activities for the nine months ended September 30, 2018 with the cash flow for the nine months ended September 30, 2017 primarily reflects a decrease in earnings sources (the comparable period in 2017 included the gain from the \$37.0 million cash settlement of the litigation discussed above), while the changes in project working capital were relatively consistent during the periods.



Table of Contents

During the first nine months of 2018, we used \$58.5 million of cash for investing activities due primarily to the acquisition of property and equipment for projects, compared to the use of cash of \$56.9 million for the same period in 2017, primarily resulting from investments in securities and the acquisition of property and equipment for projects.

For the first nine months of 2018, net cash provided by financing activities was \$17.3 million, which was primarily due to increased net borrowings of \$57.4 million, partially offset by \$22.5 million of cash distributions to noncontrolling interests and a \$16.0 million earn-out payment related to a 2011 acquisition. Net cash provided by financing activities for the comparable period in 2017 was \$97.7 million, which was primarily due to increased net borrowings, partially offset by debt issuance and extinguishment costs related to the debt restructuring transactions in April 2017 and tax payments related to the net settlement of share-based compensation.

At September 30, 2018, we had working capital of \$1.6 billion, a ratio of current assets to current liabilities of 1.94 and a ratio of debt to equity of 0.46, compared to working capital of \$1.5 billion, a ratio of current assets to current liabilities of 1.94 and a ratio of debt to equity of 0.43 at December 31, 2017.

Debt

Summarized below are the key terms of the 2017 Credit Facility as of September 30, 2018. For additional information regarding our outstanding debt, refer to Note 8 of the Notes to Condensed Consolidated Financial Statements.

2017 Credit Facility

On April 20, 2017, we entered into a credit agreement (the “2017 Credit Facility”) with SunTrust Bank as Administrative Agent, Swing Line Lender and L/C Issuer and a syndicate of other lenders. The 2017 Credit Facility provides for a \$350 million revolving credit facility (the “2017 Revolver”) and a sublimit for the issuance of letters of credit and swingline loans up to the aggregate amount of \$150 million and \$10 million, respectively, both maturing on April 20, 2022 unless any of the Convertible Notes are outstanding on December 17, 2020, in which case all such borrowings will mature on December 17, 2020 (subject to certain further exceptions). In addition, the 2017 Credit Facility permits additional borrowings in an aggregate amount of \$150 million, which can be in the form of increased capacity on the 2017 Revolver or the establishment of one or more term loans. For additional information regarding the terms of our 2017 Credit Facility, refer to Note 8 of the Notes to Condensed Consolidated Financial Statements.



## Edgar Filing: TUTOR PERINI CORP - Form 10-Q

The table below presents our actual and required consolidated fixed charge coverage ratio and consolidated leverage ratio under the 2017 Credit Facility for the period, which are calculated on a rolling four-quarter basis:

	Twelve Months Ended September 30, 2018	
	Actual	Required
Fixed charge coverage ratio	2.68 to 1.00	> or = 1.25 : 1.00
Leverage ratio	3.24 to 1.00	< or = 3.50 : 1.00

As of September 30, 2018, we were in compliance and expect to continue to be in compliance with the covenants under the 2017 Credit Facility.

### Contractual Obligations

There have been no material changes in our contractual obligations from those described in our Annual Report on Form 10-K for the year ended December 31, 2017.

### Off-Balance Sheet Arrangements

None.

### Critical Accounting Policies

Our significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. Our critical accounting policies are also identified and discussed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017. Effective January 1, 2018, the Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers. See Notes 3 and 4 of the Notes to Condensed Consolidated Financial Statements for more information.

The Company tests goodwill for impairment annually for each reporting unit as of October 1st, and between annual tests if events occur or circumstances change which suggest that goodwill should be reevaluated. We determined that no triggering events occurred

35

---

Table of Contents

or circumstances changed since the date of our last annual test that would more likely than not reduce the fair value of the Company's reporting units below their carrying amounts. Accordingly, an interim impairment test since the date of our last annual impairment test was not required; however, circumstances such as a sustained decline in our stock price and market capitalization or other factors could result in an impairment charge in the future. We will continue to monitor such factors as we perform our annual impairment test during the fourth quarter.

Recently Issued Accounting Pronouncements

See Note 2 of the Notes to Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in our exposure to market risk from that described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q was made under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (a) were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

## Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. – OTHER INFORMATION

### Item 1. Legal Proceedings

We disclosed information about certain of our legal proceedings in Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2017. For an update to those disclosures, see Note 9 of the Notes to the Condensed Consolidated Financial Statements.

### Item 1A. Risk Factors

There have been no material changes to our risk factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

### Item 4. Mine Safety Disclosures

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”) by the federal Mine Safety and Health Administration. We do not act as the owner of any mines but we may act as a mining operator as defined under the Mine Act where we may be an independent contractor performing services or construction of such mine.

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 Regulation S-K is included in Exhibit 95.



Table of Contents

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits	Description
10.1	<u>Employment Offer Letter, dated June 12, 2018, by and between Tutor Perini Corporation and Wendy A. Hallgren.</u>
31.1	<u>Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
95	<u>Mine Safety Disclosure.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

Table of Contents

SIGNATURE

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

Tutor Perini Corporation

Dated: November 7, 2018 By: /s/ Gary G. Smalley  
Gary G. Smalley  
Executive Vice President  
and Chief Financial  
Officer