



Notice and Proxy Statement
and
Fiscal Year 2018 Annual Report



**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON FRIDAY, MARCH 8, 2019**

NOTICE IS HEREBY GIVEN that the 2019 Annual Meeting of Stockholders (the “Annual Meeting”) of Construction Partners, Inc. (the “Company”) will be held on Friday, March 8, 2019, at 9:00 a.m., Central Time, at the Hilton Garden Inn, located at 171 Hospitality Lane, Dothan, Alabama 36303. The Annual Meeting is being held for the following purposes:

1. to elect two Class I directors to serve for a three-year term expiring at the 2022 annual meeting of stockholders;
2. to ratify the appointment of RSM US LLP as the Company’s independent registered public accountants for the fiscal year ending September 30, 2019; and
3. to transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The Board of Directors has established January 7, 2019 as the record date for the Annual Meeting. Only holders of the Company’s Class A or Class B common stock at the close of business on the record date are entitled to notice of, and to vote at, the Annual Meeting and at any adjournments or postponements thereof.

This proxy statement provides you with detailed information about the proposals to be voted on at the Annual Meeting. With this proxy statement, we are also including a copy of our 2018 Annual Report on Form 10-K (the “Annual Report”) in order to provide you with additional information about the Company. We encourage you to read this proxy statement and the Annual Report carefully.

The Annual Meeting may be adjourned from time to time without notice other than announcement at the Annual Meeting, and any business for which notice is hereby given may be transacted at any such adjournment.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Ned N. Fleming, III", written over a light gray rectangular background.

Ned N. Fleming, III
Executive Chairman of the Board of Directors
Dothan, Alabama
January 22, 2019

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CONSTRUCTION PARTNERS, INC.

**PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD FRIDAY, MARCH 8, 2019**

This proxy statement (the “Proxy Statement”), along with the accompanying Notice of Annual Meeting of Stockholders (the “Notice”), is furnished on behalf of Construction Partners, Inc. (the “Company”) by its board of directors (the “Board”) and management team in connection with the solicitation of your proxy to be voted at the 2019 Annual Meeting of Stockholders of the Company (the “Annual Meeting”) to be held at 9:00 a.m., Central Time, on Friday, March 8, 2019, at the Hilton Garden Inn, located at 171 Hospitality Lane, Dothan, Alabama 36303, and at any adjournments or postponements thereof.

In this Proxy Statement, unless the context suggests or requires otherwise, references to “the Company,” “we,” “us” and “our” mean Construction Partners, Inc. (formerly known as SunTx CPI Growth Company, Inc.), a Delaware corporation, and, as appropriate, our subsidiaries. References to “SunTx” mean SunTx Capital Partners, a private equity firm based in Dallas, Texas, and its affiliates, which collectively own a controlling interest in our common stock.

We began mailing this Proxy Statement and the accompanying Notice on or about January 22, 2019 to all stockholders of the Company entitled to vote at the Annual Meeting.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MARCH 8, 2019**

This Proxy Statement is available for viewing, downloading and printing at www.proxyvote.com. Additionally, you can find a copy of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018 (the “Annual Report”), which includes our annual financial statements, on the website of the Securities and Exchange Commission (the “SEC”) at <http://www.sec.gov>, or by following the “Investors - Financial Information” link on our website at <http://www.constructionpartners.net>. You may also obtain a printed copy of our Annual Report, including our financial statements, free of charge by sending a written request to the principal executive office of the Company at the following address: Construction Partners, Inc., 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303, Attention: Secretary. Exhibits will be provided upon written request and payment of an appropriate processing fee.

EXPLANATORY NOTE

We are an “emerging growth company” under the Jumpstart Our Business Startups Act (the “JOBS Act”) and a “smaller reporting company” as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). As such, we are permitted to take advantage of certain reduced reporting requirements that are otherwise applicable generally to public companies. These provisions include, among other things, (i) an option to present only two years of audited financial statements and related management’s discussion and analysis in our Annual Report; (ii) an exemption from the requirement that our auditor attest to the effectiveness of our internal control over financial reporting, (iii) an exemption from compliance with any requirement that the Public Company Accounting Oversight Board may adopt regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements; (iv) reduced disclosure about our executive compensation arrangements; and (v) an exemption from the requirements to obtain a non-binding advisory vote on executive compensation or a stockholder approval of any golden parachute arrangements.

We have taken advantage of certain of the exemptions discussed above in this Proxy Statement, in our Annual Report and elsewhere, and we intend to continue to do so for so long as we are eligible. We will remain an emerging growth company until the earliest to occur of: (i) the last day of the fiscal year in which our total revenue exceeds \$1.07 billion, (ii) September 30, 2023, which is the last day of the fiscal year following the fifth anniversary of our initial public offering, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities and (iv) the date on which we are deemed to be a “large accelerated filer” under the Exchange Act.

IMPORTANT INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Why am I receiving these materials?

The Board, on behalf of the Company, is providing these proxy materials to you in connection with the Annual Meeting. Stockholders are invited to attend the Annual Meeting and are requested to vote on the proposals described in this Proxy Statement. This Proxy Statement, along with the accompanying Notice of Annual Meeting of Stockholders, summarizes the purposes of the Annual Meeting and certain information that will assist you in determining how to vote at the Annual Meeting.

Who is soliciting my proxy?

This proxy solicitation is being made on behalf of the Company by its Board and management. The cost of this solicitation, including the cost of distributing the proxy materials, will be borne by the Company. Officers and employees of the Company may solicit proxies, either through personal contact or by mail, telephone or other electronic means. These officers and employees will not receive additional compensation for soliciting proxies. Brokerage houses, nominees, fiduciaries, and other custodians will be requested to forward soliciting materials to beneficial owners and will be reimbursed by the Company for their reasonable out-of-pocket expenses incurred in sending proxy materials to beneficial owners.

What is included in these materials?

These proxy materials include:

- the Proxy Statement for our Annual Meeting;
- a proxy card with a prepaid return envelope; and
- our Annual Report, which includes our audited financial statements.

This Proxy Statement and form of proxy are being mailed or made available to our stockholders on or about January 22, 2019. The Annual Report does not form any part of the materials for solicitation of proxies.

What proposals will be voted on at the Annual Meeting?

There are two proposals scheduled to be voted on at the Annual Meeting: (i) the election of two Class I directors to serve for a three-year term expiring at the 2022 annual meeting of stockholders (Proposal 1) and (ii) the ratification of the appointment of RSM US LLP (“RSM”) as the Company’s independent registered public accountants for the fiscal year ending September 30, 2019 (Proposal 2).

Who may vote at the Annual Meeting?

The Board has fixed January 7, 2019 as the record date (the “Record Date”) for determining stockholders of the Company entitled to receive notice of and vote at the Annual Meeting. Only stockholders of record as of the close of business on the Record Date are entitled to vote at the Annual Meeting. On the Record Date, there were 11,950,000 shares of Class A common stock, par value \$0.001, issued and outstanding, all of which were held in “street name” through a single stockholder of record, and 39,464,619 shares of Class B common stock, par value \$0.001, issued and outstanding, held by 16 stockholders of record. The actual number of beneficial holders of our Class A common stock is significantly greater than the number of stockholders of record and includes stockholders who are beneficial owners, but whose shares are held by banks, brokers and other nominees.

What are my voting rights under the Company’s dual class equity structure?

On April 23, 2018, we amended and restated our certificate of incorporation to effectuate a dual class common stock structure consisting of Class A and Class B common stock. This amendment and restatement resulted in the initial authorization of Class A common stock and the automatic conversion of each share of our common stock, par value \$0.001 per share, into 25.2 shares of Class B common stock. In this Proxy Statement, we refer to these actions collectively as the “Reclassification,” and we refer to the Class A and Class B common stock collectively as the “common stock.”

The rights of holders of our Class A common stock and our Class B common stock are identical, except with respect to voting rights, conversion rights and certain transfer restrictions applicable to our Class B common stock. With respect to each proposal to come before the stockholders at the Annual Meeting, including the election of directors, each share of Class A common stock is entitled to one vote, and each share of Class B common stock is entitled to ten votes. As of the Record Date, there were (i) 11,950,000 shares of Class A common stock outstanding, representing approximately 23.2% of our total equity ownership and approximately 2.9% of the total voting power of our outstanding common stock, and (ii) 39,464,619 shares of Class B common stock outstanding, representing approximately 76.8% of our total equity ownership and approximately 97.1% of the total voting power of our outstanding common stock. Until the Class B common stock is converted to Class A common stock, holders of our Class B common stock have the ability to elect all of the members of our Board and to control the outcome of any other proposals to come before the stockholders at the Annual Meeting.

If I hold my shares through a brokerage firm, bank or other nominee, how do I vote at the Annual Meeting?

If your shares are held through a brokerage firm, bank or other nominee (collectively, “nominees”), then you are considered the beneficial owner of shares held in “street name,” and these proxy materials are being forwarded to you by your nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you are invited to attend the Annual Meeting. However, you may vote shares held in “street name” in person at the Annual Meeting only if you obtain a signed proxy from the record holder (your nominee) giving you the right to vote the shares. You also have the right to direct your nominee how to vote these shares. Your nominee should have enclosed a voting instruction form explaining the process for providing directions to your nominee about how to vote your shares.

May my nominee vote my shares without receiving an instruction from me as to how my shares should be voted?

A “broker non-vote” occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee has not received instructions from the beneficial owner about how to vote on the proposal and does not have discretionary voting power for that proposal. If your shares are held in street name through a nominee and you do not instruct your nominee about how to vote your shares, then your nominee may vote your shares only on routine matters or, in its discretion, may leave your shares unvoted.

Proposal 1 (election of directors) is not considered a routine matter. As a result, without an instruction from the beneficial holder, a nominee may not vote the shares that it holds with respect to Proposal 1. However, because of the plurality voting standard for the election of directors, broker non-votes will have no effect on the outcome of the vote for Proposal 1. Proposal 2 (ratification of the appointment of our independent registered public accounting firm) is considered a routine matter. Therefore, nominees have the discretion to vote any uninstructed shares on Proposal 2, and broker non-votes are unlikely to result from this Proposal. Broker non-votes will be counted as present for purposes of establishing a quorum.

If I am a stockholder of record, how do I vote at the Annual Meeting?

If your shares are registered directly in your name with the Company's transfer agent, Continental Stock Transfer & Trust Company, Inc. ("Continental"), then you are considered the stockholder of record with respect to those shares, and these proxy materials are being sent directly to you. As the stockholder of record, you may vote your shares in person at the Annual Meeting. If you choose to vote your shares in person at the Annual Meeting, please bring to the Annual Meeting proof of your identity and your ownership of the Company's common stock on the Record Date, such as the enclosed proxy card or a statement of ownership from Continental. Even if you plan to attend the Annual Meeting, the Company recommends that you vote your shares in advance as described below so that your vote will be counted if you later decide not to or are otherwise unable to attend the Annual Meeting.

You also have the right to grant your voting proxy directly to the persons named as proxy holders, Ned N. Fleming, III, our Executive Chairman, Charles E. Owens, our President and Chief Executive Officer, and R. Alan Palmer, our Executive Vice President and Chief Financial Officer, by any of the following means:

- **By Internet:** Go to the website www.proxyvote.com and follow the instructions. You will need the control number included on the enclosed proxy card in order to vote by internet.
- **By Telephone:** Dial toll-free 1-800-690-6903 and follow the recorded instructions. You will need the control number included on the enclosed proxy card in order to vote by telephone.
- **By Mail:** Mark your selections on the enclosed proxy card, date and sign your name exactly as it appears on the proxy card and mail the proxy card in the enclosed pre-paid envelope. Mailed proxy cards must be received no later than March 7, 2019 in order to be counted at the Annual Meeting.

In accordance with the Company's amended and restated by-laws, a complete list of stockholders of record who are entitled to vote at the Annual Meeting will be available for inspection during the ten-day period prior to the Annual Meeting at the main office of the Company during regular business hours and at the Annual Meeting.

May I revoke my proxy or change my voting instructions?

You may revoke your proxy or change your voting instructions prior to the vote at the Annual Meeting. If your shares are held through a nominee, you must follow the instructions from your nominee on how to change or revoke your voting instructions or how to vote in person at the Annual Meeting. If you are a stockholder of record, you may enter new voting instructions by using the internet or telephone methods described above or by mailing a new proxy card bearing a later date. Any of these methods will automatically revoke your earlier voting instructions if they are received by 11:59 p.m., Central Time, on March 7, 2019. You may also enter a new vote by attending the Annual Meeting and voting in person. Your attendance at the Annual Meeting in person will not cause your previously granted proxy to be revoked unless you specifically so request.

What vote is required to approve each proposal?

For Proposal 1, the election of directors will be determined by a plurality of the votes cast by the stockholders present in person or represented by proxy at the Annual Meeting and entitled to vote. Under a plurality voting standard, the directors who are elected to serve on our Board will be the two nominees receiving the highest number of votes cast in the election. For each nominee, stockholders may either vote "FOR" that nominee or "WITHHOLD" their vote with respect to that nominee. Accordingly, shares electing to "WITHHOLD" from voting for a particular nominee will be counted as present for purposes of establishing a quorum, but will have no effect on the election of directors.

Proposal 2, the ratification of the appointment of RSM as the Company's independent registered public accounting firm, requires the affirmative vote of a majority of the votes cast by the stockholders present in person or by proxy at the Annual Meeting and entitled to vote. Under this standard, Proposal 2 will be approved if the number of votes cast in favor of the Proposal exceeds the number of votes cast against it. Stockholders may either vote "FOR" or "AGAINST" the Proposal or may "ABSTAIN" from voting on the Proposal. Shares abstaining from voting on Proposal 2 will be counted as present for purposes of establishing a quorum but will have no effect on the outcome of the vote.

The holders of our common stock do not have cumulative voting rights with respect to the matters to be acted on at the Annual Meeting. Therefore, stockholders holding a majority in voting power of the shares of our common stock entitled to vote generally in the election of directors will be able to elect all of our directors.

What is the Board's voting recommendation for each of the proposals?

The Board recommends that you vote your shares “**FOR**” each of the nominees to the Board and “**FOR**” the ratification of the appointment of RSM as the Company’s independent registered public accounting firm for the fiscal year ending September 30, 2019. Unless instructed to the contrary, shares represented by proxies at the Annual Meeting will be voted in accordance with the Board recommendations described above. The Board urges you to review these proxy materials carefully before you vote.

Where can I find the voting results of the Annual Meeting?

We will announce preliminary voting results at the Annual Meeting and publish preliminary results, or final results if available, in a Current Report on Form 8-K within four business days after the Annual Meeting. If final results are unavailable at the time at which we file the Form 8-K, then we will file an amended report on Form 8-K to disclose the final voting results within four business days after the final voting results are known.

What happens if additional proposals are presented at the Annual Meeting?

Other than the proposals described in this Proxy Statement, we do not expect any matters to be presented for a vote at the Annual Meeting. If you grant a proxy, the persons named as proxy holders, Ned N. Fleming, III, our Executive Chairman, Charles E. Owens, our President and Chief Executive Officer, and R. Alan Palmer, our Executive Vice President and Chief Financial Officer, will have the discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting. If, for any reason, one or more of the Company’s nominees is not available as a candidate for director, then the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by the Board.

What is the quorum requirement for the Annual Meeting?

The presence in person or by proxy of the holders of shares representing a majority of the voting power of all outstanding shares of the Company’s common stock entitled to vote at the Annual Meeting will constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum, but will have no effect on the outcome of the vote on the proposals to be presented at the Annual Meeting.

Who will count the vote?

We have engaged Broadridge Financial Solutions, Inc. to tabulate the votes represented by proxies from brokerage firms, banks and other nominees and stockholders of record. A representative of the Company will act as the inspector of election.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within the Company or to third parties, except (i) as necessary to meet applicable legal requirements, (ii) to allow for the tabulation and certification of the votes and (iii) to facilitate a successful proxy solicitation by the Board.

May I propose actions for consideration at next year's annual meeting of stockholders or nominate individuals to serve as directors?

You may submit proposals and director nominations for consideration at future annual meetings of the Company’s stockholders as follows:

Stockholder Proposals under Rule 14a-8: In order for a proposal by a stockholder of the Company to be eligible to be included in the Company’s proxy statement for the 2020 annual meeting of stockholders pursuant to the proposal process mandated by Rule 14a-8 under the Exchange Act (“Rule 14a-8”), the proposal must be received by the Company on or before September 24, 2019 and must comply with the informational and other requirements set forth in Regulation 14A under the Exchange Act.

Other Stockholder Proposals and Nomination of Director Candidates: The Company's amended and restated by-laws also permit stockholders to nominate directors or submit proposals for a vote at a meeting of stockholders outside of the process provided by Rule 14a-8. In order for a stockholder to raise a proposal from the floor at an annual meeting or nominate an individual for election as a director, the proposal or nomination must be received by the Company not more than 120 days or less than 90 days before the first anniversary of the date of the preceding year's annual meeting. Thus, in order for a proposal or nomination to be timely for the 2020 annual meeting of stockholders, the proposal, together with the information required under the applicable by-law provision, must be received by the Company not earlier than November 9, 2019 or later than December 9, 2019.

Copy of Amended and Restated By-Law Provisions: Our amended and restated by-laws are available on the SEC's website at <http://www.sec.gov>. You may also contact our Secretary at our corporate headquarters for a copy of the relevant provisions of our amended and restated by-laws regarding the requirements for making stockholder proposals and nominating director candidates. Additionally, a copy of our amended and restated by-laws is available on our website at www.constructionpartners.net under the "Investors - Corporate Governance" tab.

What does it mean if I receive more than one set of proxy materials?

If you received more than one set of proxy materials, then your shares are registered in different names or are in more than one account. For each set of proxy materials that you receive, please submit your vote for the control number that has been assigned to you in such materials.

How do I obtain a separate set of proxy materials if I share an address with other stockholders?

To reduce expenses, in some cases, we may deliver one set of proxy materials to certain stockholders who share an address, unless otherwise requested by one or more of the stockholders. However, in such situations, a separate proxy card has been included with the proxy materials for each stockholder. If you have received only one set of proxy materials, you may request separate copies to be delivered promptly at no additional cost to you by calling us at (334) 673-9763 or by writing to us at Construction Partners, Inc., 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303, Attention: Secretary.

If I share an address with other stockholders of the Company, how can we receive only one set of proxy materials for future meetings?

You may request that we send you and the other stockholders who share an address with you only one set of proxy materials by calling us at (334) 673-9763 or by writing to us at Construction Partners, Inc., 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303, Attention: Secretary.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of the Record Date by: (i) each of our directors; (ii) each of our named executive officers; (iii) all of our directors and executive officers as a group; and (iv) each stockholder known by the Company to beneficially own more than 5% of our Class A or Class B common stock. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. Shares of common stock that may be acquired by an individual or group within 60 days of the Record Date pursuant to derivative securities, such as options, are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

Percentage of ownership is based on a total of 11,950,000 shares of Class A common stock and 39,464,619 shares of Class B common stock outstanding as of the Record Date. Each share of Class A common stock is entitled to one vote per share, and each share of Class B common stock is entitled to ten votes per share. The Class A common stock and Class B common stock vote together on all matters submitted to a vote of stockholders, unless otherwise required by applicable law, our amended and restated certificate of incorporation or our amended and restated by-laws. Neither class of our common stock has cumulative voting rights.

Except as indicated in the footnotes below, we believe, based on information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of our common stock that they beneficially own. The Company does not know of any arrangements, including any pledge by any person of the Company's securities, the operation of which may at a subsequent date result in a change in control of the Company. Unless otherwise indicated, the address for each director and executive officer is: c/o Construction Partners, Inc., 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303.

Name of Beneficial Holder	Common Stock Beneficially Owned				% of Total Voting Power†
	Class A		Class B		
	Shares	% of Class	Shares	% of Class	
5% Stockholders					
SunTx CPI Expansion Fund, L.P. ⁽¹⁾	-	*	18,312,458	46.4 %	45.0 %
SunTx Fulcrum Fund Prime, L.P. ⁽¹⁾	-	*	10,832,128	27.4 %	26.6 %
SunTx Fulcrum Dutch Investors Prime, L.P. ⁽¹⁾	-	*	5,897,486	14.9 %	14.5 %
Grace, Ltd. ⁽²⁾	-	*	2,500,048	6.3 %	6.1 %
ArrowMark Colorado Holdings LLC ⁽³⁾	1,306,398	10.9 %	-	*	*
Empyrean Capital Partners, LP ⁽⁴⁾	767,428	6.8 %	-	*	*
Directors and Named Executive Officers					
Ned N. Fleming, III ⁽⁵⁾⁽⁶⁾	4,000	*	35,042,072	88.8 %	86.2 %
Craig Jennings ⁽⁵⁾	-	*	35,042,072	88.8 %	86.2 %
Mark R. Matteson ⁽⁵⁾	1,000	*	35,042,072	88.8 %	86.2 %
Michael H. McKay	-	*	35,406	*	*
Stefan L. Shaffer	-	*	-	*	*
Charles E. Owens ⁽⁷⁾	-	*	2,500,048	6.3 %	6.1 %
R. Alan Palmer	1,500	*	290,209	*	*
F. Julius Smith, III ⁽⁸⁾	-	*	101,052	*	*
All Directors and Executive Officers as a Group (14 persons)	37,900	*	38,413,039	97.2 %	94.3 %

- * Represents less than 1%.
- † Represents the voting power with respect to all shares of Class A common stock and Class B common stock outstanding as of the Record Date, voting as a single class.
- (1) SunTx CPI Expansion Fund GP, L.P. (“SunTx Expansion Fund GP”) is the general partner of SunTx Expansion Fund, L.P. (“SunTx Expansion Fund”), and SunTx Capital Partners L.P. (“SunTx Partners GP”) is the general partner of each of SunTx Fulcrum Fund Prime, L.P. (“SunTx Fulcrum Fund”) and SunTx Fulcrum Dutch Investors Prime, L.P. (“SunTx Fulcrum Dutch Fund”) and, together with SunTx Expansion Fund and SunTx Fulcrum Fund, the “SunTx Funds”). Each of (i) Mr. Fleming, as the sole stockholder and director of SunTx Capital Management Corp. (“SunTx Capital Management”), (ii) SunTx Capital Management, as the general partner of each of SunTx Expansion Fund GP and SunTx Partners GP, (iii) SunTx Expansion Fund GP, as the general partner of SunTx Expansion Fund, and (iv) SunTx Partners GP, as the general partner of each of SunTx Fulcrum Fund and SunTx Fulcrum Dutch Fund, may be deemed to beneficially own shares held by the SunTx Funds. Additionally, Messrs. Jennings and Matteson, as executive officers of SunTx Capital Management, may be deemed to beneficially own shares held by the SunTx Funds. Each of Messrs. Fleming, Jennings and Matteson, as well as SunTx Capital Management, SunTx Expansion Fund GP and SunTx Partners GP, disclaims any beneficial ownership of such shares except to the extent of any proportionate pecuniary interest therein. The address of each of Messrs. Fleming, Jennings and Matteson, SunTx Management, SunTx Expansion Fund GP, SunTx Partners GP and the SunTx Funds is c/o SunTx Capital Management Corp., 5420 LBJ Freeway, Suite 1000, Dallas, Texas 75240.
- (2) Charles E. Owens, our President and Chief Executive Officer, is the general partner of Grace Ltd. As the general partner of Grace Ltd., Mr. Owens may be deemed to beneficially own shares held by Grace Ltd. The business address of Grace Ltd. is 10 Chateau Place, Dothan, Alabama 36303.
- (3) Beneficial ownership information is as of July 31, 2018, as reported on a Schedule 13G filed by ArrowMark Colorado Holdings LLC on August 10, 2018. The address of the business office of ArrowMark Colorado Holdings LLC is 100 Fillmore Street, Suite 325, Denver, Colorado 80206.
- (4) Beneficial ownership information is as of May 4, 2018, as reported on a Schedule 13G filed by Empyrean Capital Partners, LP on May 11, 2018. Based on the Schedule 13G, 720,999 shares of the reported Class A common stock are owned by Empyrean Capital Overseas Master Fund, Ltd., a Cayman Islands exempted company, and 46,429 shares of the Class A common stock are owned by P EMP Ltd., a British Virgin Islands business company. Each of these entities shares voting and dispositive power with Empyrean Capital Partners, LP, a Delaware limited partnership, which serves as investment manager to each of these entities, and Amos Meron, a United States citizen, who serves as the managing member of Empyrean Capital, LLC, the general partner of Empyrean Capital Partners, LP. The address of the business office of each of these persons and entities is c/o Empyrean Capital Partners, LP, 10250 Constellation Boulevard, Suite 2950, Los Angeles, California 90067.
- (5) Includes shares of Class B common stock held by the SunTx Funds. See footnote 1 above.
- (6) Includes 4,000 shares of Class A common stock owned by Mr. Fleming’s spouse.
- (7) Consists of shares of Class B common stock held by Grace Ltd. See footnote 2 above.
- (8) Includes a non-plan option to purchase 74,592 shares of Class B common stock at an exercise price of \$0.04 per share, which was fully vested on the date of grant, March 7, 2017, but is only exercisable upon a change of control of the Company, as defined in the option agreement. This option represents part of the consideration paid in the Company’s acquisition of FSC II, LLC (“FSC”).

MANAGEMENT AND CORPORATE GOVERNANCE

Our Board of Directors

Our amended and restated certificate of incorporation provides that the number of members of the Board will be determined from time to time by resolution of the Board. Currently, the Board consists of six members. The Board is divided into three classes of two directors each, with the directors in each class serving staggered three-year terms. As a result, as currently constituted, one-third of the Board is elected each year.

Our current directors are divided into the following classes:

- Class I, consisting of Ned N. Fleming, III and Charles E. Owens, whose terms will expire at the Annual Meeting;
- Class II, consisting of Craig Jennings and Mark R. Matteson, whose terms will expire at the 2020 annual meeting of stockholders; and
- Class III, consisting of Michael H. McKay and Stefan L. Shaffer, whose terms will expire at the 2021 annual meeting of stockholders.

Information about the Nominees and Other Directors

Set forth below are the biographies of each of the nominees and our other directors, including their names, ages, offices in the Company, if any, principal occupations or employment for at least the past five years, the length of their tenure as directors, and the names of other public companies in which such persons hold or have held directorships during the past five years. Additionally, information about the specific experience, qualifications, attributes or skills that led to the Board's conclusion that each person listed below should serve as a director is set forth below. The stock ownership of each director is set forth in the table above entitled "Security Ownership of Certain Beneficial Owners and Management."

<u>Name</u>	<u>Age</u>	<u>Position</u>
Ned N. Fleming, III ⁽²⁾⁽³⁾	58	Executive Chairman of the Board and Director
Charles E. Owens ⁽³⁾	68	President, Chief Executive Officer and Director
Craig Jennings	60	Director
Mark R. Matteson ⁽¹⁾⁽²⁾⁽³⁾	55	Director
Michael H. McKay ⁽¹⁾	57	Director
Stefan L. Shaffer ⁽¹⁾⁽²⁾	62	Director

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

⁽³⁾ Member of the Nominating and Corporate Governance Committee

Class I Nominees for Election - Terms Expire at the Annual Meeting

Ned N. Fleming, III is one of the founders of our Company and has served as Executive Chairman of the Board since our inception. He has served as Managing Partner of SunTx since 2001. He also serves as chairman of the boards of directors of NationsBuilders Insurance Services, Inc. and Big Outdoor LLC, and as a member of the board of directors of Veritex Holdings, Inc. (Nasdaq: VBTX). Mr. Fleming previously served as a member of the board of directors of DF&R Restaurants, Inc., a formerly publicly traded restaurant operator, and Spinnaker Industries, Inc., a publicly traded material manufacturing company. Prior to co-founding SunTx in 2001, Mr. Fleming served as President and Chief Operating Officer of Spinnaker Industries, Inc. until its sale in 1999. Prior to that, Mr. Fleming worked at a Dallas-based private investment firm, where he led acquisitions in the food and beverage and defense industries. Mr. Fleming received a Master of Business Administration with distinction from Harvard Business School and a Bachelor of Arts in Political Science from Stanford University. As a result of his role with our Company since our inception, Mr. Fleming has significant knowledge of us and our industry, which we believe makes him well-qualified to serve as a director of our Company.

Charles E. Owens is one of the founders of our Company and has served as our President and Chief Executive Officer since its inception. He has been a member of the Board since 2001 and has overseen the successful acquisition and integration of 16 companies in this role. From 1990 until its sale in 1999, Mr. Owens was President and Chief Executive Officer of Superfos Construction U.S., Inc. (“Superfos”), the North American operation of Superfos a/s, a publicly held Danish company. During his tenure at Superfos, he oversaw the successful acquisition and integration of approximately 35 companies, leading Superfos to become one of the largest highway construction companies in the United States. Prior to 1990, Mr. Owens was President of Couch Construction, Inc., a subsidiary of Superfos headquartered in Dothan, Alabama. Mr. Owens received a Bachelor of Business Administration from Troy University. As a result of his role with our Company since our inception, Mr. Owens has significant knowledge of us and our industry, which we believe makes him well-qualified to serve as a director of our Company.

Class II Continuing Directors - Terms Expire in 2020

Craig Jennings has served as a member of the Board since 2017. Since 2001, he has been a partner and Chief Financial Officer of SunTx. He also serves as chairman of the board of directors of Interface Security Systems Holdings, Inc. Prior to co-founding SunTx, Mr. Jennings was Vice President of Finance and Treasurer of Spinnaker Industries, Inc., a publicly traded materials manufacturing company, until its sale in 1999. Prior to that, Mr. Jennings held senior finance positions at a publicly traded oil field services company and a publicly traded food and beverage company. Prior to that, Mr. Jennings was a Senior Audit Manager with Ernst & Young LLP. Mr. Jennings received his Bachelor of Business Administration from the University of Toledo and is a Certified Public Accountant. We believe that Mr. Jennings’ investment, financial and directorship experience makes him well-qualified to serve as a director of our Company.

Mark R. Matteson has served as a member of the Board since our inception and was appointed as chairman of our Audit Committee in 2008. Since 2001, he has been a partner of SunTx. Prior to co-founding SunTx in 2001, Mr. Matteson was Vice President of Corporate Development of Spinnaker Industries, Inc., a publicly traded materials manufacturing company, until its sale in 1999. He currently serves as chairman of the board of directors of Freedom Truck Finance, LLC and as a member of the boards of directors of Anchor Partners, LLC and NationsBuilders Insurance Services, Inc. Mr. Matteson received a Master of Business Administration from Georgetown University and a Bachelor of Arts in Foreign Service and International Politics from The Pennsylvania State University. As a result of his role with our Company since our inception, Mr. Matteson has significant knowledge of us and our industry, which we believe makes him well-qualified to serve as a director of our Company.

Class III Continuing Directors - Terms Expire in 2021

Michael H. McKay has served as a member of the Board since 2002 and was appointed to our Audit Committee in 2008. Mr. McKay has been an Advisory Partner at Bain & Company since 2009. He also serves as a member of the board of directors of Big Outdoor Holdings, LLC and Hubbardton Forge, LLC. Since joining Bain & Company in 1987, he helped found its Private Equity Group and has evaluated and developed strategies for hundreds of businesses. From 2004 to 2006, Mr. McKay served as Chief Investment Officer of a principal investment firm based in Washington D.C., making public and private investments, and was Managing Partner of a Boston-based hedge fund from 2006 to 2009. Mr. McKay is also a Senior Lecturer at the Brandeis International Business School, where he has served on the faculty since 2010. Mr. McKay received a Master of Business Administration from The University of Chicago Graduate School of Business, where he received the Mayer Prize as top graduating student, and a Bachelor of Arts with high distinction in Economics from Harvard University. We believe that Mr. McKay’s experience analyzing, financing and investing in public and private companies makes him well-qualified to serve as a director of our Company.

Stefan L. Shaffer has served as a member of the Board since 2018. Mr. Shaffer is the Managing Partner of SPP Capital Partners, a middle market investment banking and asset management firm that he co-founded in 1989. Prior to founding SPP Capital Partners, Mr. Shaffer was a Vice President in the Private Placement Group at Bankers Trust Company from 1986 to 1989, and worked as an attorney with the law firm of White & Case LLP from 1982 to 1986. Mr. Shaffer received a Juris Doctor from Cornell University Law School and a Bachelor of Arts from Colgate University. We believe that Mr. Shaffer’s experience analyzing, financing and advising public and private companies makes him well-qualified to serve as a director of our Company.

Information about Executive Officers Who Are Not Also Directors

The following table sets forth certain information about our executive officers who are not also directors.

Name	Age	Position
R. Alan Palmer	66	Executive Vice President and Chief Financial Officer
Todd K. Andrews	56	Chief Accounting Officer
M. Brett Armstrong	57	Senior Vice President
J. Ryan Brooks	30	Senior Vice President, Legal
Robert P. Flowers	59	Senior Vice President
John L. Harper	54	Senior Vice President
F. Julius Smith, III	49	Senior Vice President
John A. Walker	62	Senior Vice President

R. Alan Palmer is one of the founders of our Company and has served as our Executive Vice President and Chief Financial Officer since 2006. Between 2001 and 2006, Mr. Palmer provided consulting services to the Company. Prior to 2000, Mr. Palmer was Vice President and Chief Financial Officer of Couch Construction, Inc. and Superfos. Mr. Palmer has been principally involved in the acquisition and integration of approximately 50 companies alongside Mr. Owens over the course of his career. Mr. Palmer is a Certified Public Accountant and received a Bachelor of Science in Accounting from Auburn University.

Todd K. Andrews was appointed as our Chief Accounting Officer in December 2018. Prior to his appointment, Mr. Andrews served as the Company's Controller, a role that he held since 2008. Before joining the Company, Mr. Andrews served for more than nine years as Chief Financial Officer of Graceba Total Communications, Inc., a provider of cable television and broadband internet services, and in accounting roles at two banking institutions. Mr. Andrews is a Certified Public Accountant and holds Bachelor of Science degrees in Accounting and Computer Science from Troy University.

M. Brett Armstrong has served as our Senior Vice President since 2017 and has served as Chief Operating Officer of Wiregrass Construction Company, Inc. ("WCC"), a subsidiary of our Company, since 2008. Mr. Armstrong served as Vice President and Area Manager of WCC from 2000 to 2008. Mr. Armstrong has more than 30 years of construction management experience. Prior to joining WCC, he was Area Manager over the Columbus, Georgia division of Ashland Paving and Construction, Inc. Prior to that, he was Area Manager over the Columbus, Georgia division of Superfos. Mr. Armstrong holds a Bachelor of Science in Civil Engineering from Auburn University.

J. Ryan Brooks has served as our Senior Vice President, Legal, since August 2018. Prior to joining the Company, Mr. Brooks was in private law practice at Maynard, Cooper & Gale, P.C. in Birmingham, Alabama, where he represented both public and private companies in a variety of corporate matters, including mergers and acquisitions, securities offerings and regulatory compliance. Mr. Brooks holds a Bachelor of Science in Accounting from Auburn University and a Juris Doctor from Vanderbilt University Law School.

Robert P. Flowers has served as our Senior Vice President since 2017 and has served as President of C.W. Roberts Contracting, Inc., a subsidiary of our Company, since joining our Company in 2013. Mr. Flowers has more than 30 years of construction management experience. Prior to joining our Company, he was Executive Vice President of Estimating and Construction for Barlovento, LLC, a general contractor performing civil and commercial construction throughout the United States. Prior to that, Mr. Flowers was the Georgia Platform President of Superfos.

John L. Harper has served as our Senior Vice President since 2017 and has served as President of WCC, a subsidiary of our Company, since 1996. Mr. Harper has more than 30 years of construction management experience. Prior to becoming President of WCC, he served as Vice President of Estimating/Project Management of WCC. An active member of several state and national highway construction organizations, Mr. Harper currently serves as the Chairman of the National Asphalt Pavement Association. Mr. Harper received a Bachelor of Science in Finance from Auburn University.

F. Julius Smith, III has served as our Senior Vice President since 2017 and has served as President of Fred Smith Construction, Inc., a subsidiary of our Company acquired in 2011, since 2009. With more than 20 years of construction management experience, Mr. Smith previously served as Chief Operating Officer of Fred Smith Construction, Inc. from 2005 to 2009. Prior to that, he held various other positions within Fred Smith Construction, Inc. and also served in the supply corps of the U.S. Navy. Mr. Smith received a Master of Business Administration and a Bachelor of Arts in History from Wake Forest University.

John A. Walker has served as our Senior Vice President since 2017 and previously served as Vice President of Business Development since joining our Company in 2009. Mr. Walker has more than 30 years of experience in the construction industry. Before joining our Company, he was a Regional Vice President at Oldcastle Materials, Inc. Prior to that, he was the Alabama Platform President of Superfos. Mr. Walker is a Licensed Professional Engineer and holds a Bachelor of Science in Civil Engineering from Auburn University.

Certain Director and Executive Officer Relationships

None of our current directors or director nominees were selected pursuant to any arrangement or understanding, other than with our directors and executive officers acting within their capacities as such. There are no family relationships between or among any of our directors and executive officers. Mr. Fleming, who serves as a member of the board of directors of Veritex Holdings, Inc., is the only director or executive officer of the Company who serves as a director of a company that (i) has a class of securities registered under, or that is subject to the periodic reporting requirements of, the Exchange Act, or (ii) is an investment company registered under the Investment Company Act of 1940. None of our directors or executive officers has been involved in any legal proceedings during the past 10 years that are material to an evaluation of the ability or integrity of such person. In addition, none of our directors, executive officers or 5% stockholders or any associate of any of the foregoing has been involved in any legal proceedings in which such person has or had a material interest adverse to the Company or any of our subsidiaries. The principal occupation and employment during the past five years of each of our directors was carried on, in each case except as specifically identified above, with a corporation or organization that is not a parent, subsidiary or other affiliate of the Company.

Director Independence and Controlled Company Exemption

Because SunTx beneficially owns a majority of the voting power of our outstanding common stock, we are a “controlled company” under the listing rules of The Nasdaq Stock Market LLC (“Nasdaq”). As a controlled company, we are exempt from certain Nasdaq governance requirements that would otherwise apply to the composition and function of our Board. For example, we are not required to comply with certain rules that would otherwise require, among other things, (i) our Board to have a majority of independent directors, (ii) the compensation of our executive officers to be determined by a majority of the independent directors or a committee of independent directors, and (iii) director nominees to be selected or recommended either by a majority of the independent directors or a committee of independent directors. Notwithstanding our status as a controlled company, we remain subject to the requirements that our independent directors hold regular executive sessions and that our Audit Committee consist entirely of independent directors by May 4, 2019, the one-year anniversary of the listing of our Class A common stock on the Nasdaq Global Select Market.

If at any time we cease to be a controlled company, we will take all action necessary to comply with the Nasdaq listing rules, including appointing a majority of independent directors to our Board and ensuring that our Compensation Committee and our Nominating and Corporate Governance Committee are each composed entirely of independent directors, subject to any permitted “phase-in” periods. We will no longer qualify as a controlled company once SunTx ceases to own a majority of the voting power of our outstanding common stock.

To qualify as “independent” under the Nasdaq listing rules, a director must meet certain objective criteria set forth in the Nasdaq listing rules, and our Board must affirmatively determine that the director has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us) that would interfere with his or her exercise of independent judgment in carrying out his or her responsibilities as a director. Among other things, the Nasdaq independence criteria include that the director not be our employee and not have engaged in various types of business dealings with the Company.

Our Board has reviewed all direct or indirect business relationships between each director (including his or her immediate family members) and the Company, as well as each director’s relationships with charitable organizations, to assess director independence as defined in the Nasdaq listing rules. Based on this review, our Board has determined that Stefan L. Shaffer and Michael H. McKay are “independent” directors under the Nasdaq listing rules. Additionally, our Board has determined that Messrs. Shaffer and McKay satisfy the heightened independence requirements of Rule 10A-3 under the Exchange Act for purposes of Audit Committee membership.

Board Leadership Structure

The Board oversees the business and affairs of the Company and monitors the performance of its management. Although the Board is not involved in the Company’s day-to-day operations, the directors keep themselves informed about the Company through meetings of the Board, reports from management and discussions with the Company’s executive officers. Directors also communicate with the Company’s outside advisors, as necessary.

Members of the Board are elected by our stockholders. The basic responsibility of the Board is to lead the Company by exercising its business judgment to act in what each director reasonably believes to be the best interests of the Company and its stockholders. Leadership is important to facilitate the Board acting effectively as a working group so that the Company and its performance may benefit.

The role of Executive Chairman of the Board includes providing continuous feedback on the direction, performance and strategy of the Company, presiding as chairman of Board meetings, setting the Board's agenda with management and leading the Board in anticipating and responding to opportunities and challenges faced by the Company. Ned N. Fleming, III currently serves as the Executive Chairman of our Board. Our Board does not have a formal policy regarding the combination of the roles of Executive Chairman and Chief Executive Officer because the Board believes that it is in the best interests of the Company to have the flexibility to determine, from time to time, whether the positions should be held by the same person or by separate persons. The Board believes that the current separation of the roles of Executive Chairman and Chief Executive Officer allows the Company to benefit from the knowledge and leadership of two experienced business veterans and is advantageous to independence, oversight and objectivity. The Board may reconsider this leadership structure from time to time based on the leadership needs of our Board and the Company at any particular time.

Board Observer Rights

SunTx CPI Expansion Fund, L.P. (the "Expansion Fund"), a limited partnership controlled by SunTx, is one of our largest stockholders. The Northwestern Mutual Life Insurance Company ("Northwestern Mutual") and the USS-Constitution Partnership Fund, L.P. are significant limited partner investors in the Expansion Fund. The Company is a party to letter agreements with these two entities pursuant to which each of them has the right to designate one representative to attend each meeting of our Board and any committee thereof. In certain limited circumstances, we have agreed to reimburse Northwestern Mutual for reasonable out-of-pocket costs incurred by its representative in connection with traveling to and from and attending these meetings.

Meetings of the Board

Our Board conducts its business through meetings of the full Board and its committees. Under our Corporate Governance Guidelines, directors are expected to prepare for and attend all meetings of the Board and committees on which they serve. During our fiscal year ended September 30, 2018, the Board met three times, and no director attended fewer than 75% of the aggregate of (i) the total number of meetings of the Board and (ii) the total number of meetings of committees of the Board for the period during which the director served on the Board or such committee. We encourage our directors to attend annual meetings of the Company's stockholders. The Company did not hold an annual meeting of stockholders during the fiscal year ended September 30, 2018.

Committees of the Board

On November 17, 2017, the Board established three standing committees to assist it in carrying out its responsibilities: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each of the standing committees operates under its own written charter adopted by our Board, all of which are available on the Company's investor relations website at <http://ir.constructionpartners.net> under the heading "Corporate Governance - Committee Charters." In addition, special committees may be established under the direction of our Board when necessary to address specific issues. The standing committees annually review and assess the adequacy of their respective charters and recommend any revisions to the Board.

The membership and functions of each of the standing committees, as well as the number of meetings that each of them held during the 2018 fiscal year, are described below.

Audit Committee

The purpose of the Audit Committee is to oversee our accounting and financial reporting processes, the audits of our financial statements, the qualifications and performance of our independent registered public accounting firm and the execution of our internal audit function. The Audit Committee is responsible for, among other things:

- reviewing and discussing with management and our independent registered public accounting firm our annual audited and interim unaudited financial statements and related disclosures to be included in our quarterly earnings releases and periodic reports filed with the SEC;
- recommending to the Board whether our audited financial statements will be included in our Annual Report on Form 10-K;

- reviewing and discussing the scope and results of the independent registered public accounting firm’s annual audit and quarterly reviews of our financial statements, and any other matters required to be communicated to the Audit Committee by the independent registered public accounting firm;
- reviewing and discussing with management, our independent registered public accounting firm and any internal personnel or third parties serving an internal audit function the adequacy and effectiveness of our disclosure controls and procedures, our internal controls and procedures for financial reporting and our risk assessment and risk management policies (including those related to significant business risk exposures, such as data privacy and network security);
- appointing, compensating, retaining and overseeing the work of our independent registered public accounting firm, including their independence;
- reviewing and preapproving all audit, review or attest services and permitted non-audit services that may be performed by our independent registered public accounting firm;
- establishing and maintaining guidelines relating to our hiring of employees and former employees of our independent registered public accounting firm;
- reviewing and discussing the scope and staffing of our internal audit function, including any difficulties encountered by the internal audit function and restrictions on the scope of its work or access to required information, and reviewing significant internal audit reports and management’s responses;
- confirming the regular rotation of the audit partners with our independent auditor and considering whether there should be regular rotation of our auditors;
- preparing an annual Audit Committee report to be included in our proxy statement;
- reviewing legal and regulatory matters that may have a material impact on our financial statements and reviewing our compliance policies and procedures, including the implementation and effectiveness of our compliance programs;
- participating in the selection of the Company’s lead audit partner;
- reviewing the Company’s significant financing transactions and related documentation that may have a material impact on the Company’s ability to borrow to ensure that the Company is able to finance its ongoing and future operations, and evaluating whether to recommend that the Board approve or ratify any such financing transaction;
- considering all of the relevant facts and circumstances available for related party transactions submitted to the Audit Committee in accordance with our written policy governing related party transactions;
- establishing and maintaining procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters for the confidential, anonymous submission by our employees of concerns regarding questionable accounting and auditing matters;
- reviewing and discussing all critical accounting policies and practices to be used, all alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, the treatment preferred by the independent auditor, and other material written communications between the independent auditor and management; and
- reviewing and recommending to the Board director and officer indemnification and insurance policies and procedures.

The Audit Committee currently consists of Messrs. Matteson (Chairperson), McKay and Shaffer. The Board has determined that (i) Messrs. McKay and Shaffer are independent under the Nasdaq listing rules, (ii) Messrs. McKay and Shaffer each satisfy the heightened independence requirements of Rule 10A-3 under the Exchange Act, (iii) each of Messrs. Matteson, McKay and Shaffer is financially literate and (iv) Mr. McKay qualifies as an “audit committee financial expert” under the criteria set forth in the rules and regulations of the SEC. The Audit Committee met three times during the 2018 fiscal year.

Both the SEC and Nasdaq have implemented rules requiring us to have an audit committee composed of at least three directors, each of whom meets the independence and experience standards established by Nasdaq and the Exchange Act, subject to transitional relief during the one-year period following the completion of our initial public offering. Accordingly, the Audit Committee will be composed solely of independent directors by May 4, 2019, the one-year anniversary of the date on which the Company's Class A common stock was first listed on the Nasdaq Global Select Market.

Compensation Committee

The primary purposes of the Compensation Committee are to establish salaries, incentives and other forms of compensation for our officers and other employees and to administer the Company's incentive compensation and benefit plans. More specifically, the Compensation Committee is responsible for, among other things:

- reviewing and approving annually the corporate goals and objectives relevant to the compensation of our executive officers, evaluating the performance of our executive officers in light of those goals and setting the compensation levels of our executive officers based on such evaluation;
- reviewing the competitiveness of our compensation programs for executive officers to (i) attract and retain executive officers, (ii) motivate our executive officers to achieve our business objectives, and (iii) align the interests of our executive officers and key employees with the long-term interests of our stockholders;
- reviewing trends in management compensation, overseeing the development of new compensation plans and, when necessary, revising existing plans;
- periodically reviewing the compensation paid to non-employee directors through annual retainers and any other cash or equity components of compensation and perquisites, and making recommendations to the Board for any adjustments;
- reviewing and approving the employment agreements, salaries, bonuses, equity or equity-based awards and severance, termination, indemnification and change in control agreements for all of our executive officers;
- reviewing and approving compensation packages for new executive officers and termination packages for executive officers as may be suggested by management or the Board;
- reviewing and approving our policies and procedures with respect to expense accounts and perquisites for our executive officers;
- reviewing and discussing with the Board and our executive officers plans for executive officer development and corporate succession plans for the Company's executive officers;
- reviewing and making recommendations concerning long-term incentive compensation plans, including the use of stock options and other equity-based plans;
- overseeing our employee benefit plans;
- reviewing periodic reports from management on matters relating to personnel appointments and practices;
- reviewing and assessing the Company's policies and practices for compensating its employees, including its executive officers, as they relate to risk management practices, risk-taking incentives and identified major risk exposures to the Company; and
- making recommendations concerning policies to mitigate risks arising from compensation policies and practices, including policies providing for the recovery of incentive or equity-based compensation and limiting hedging activities related to the Company's common stock.

Pursuant to its charter, the Compensation Committee is authorized to retain and terminate advisors to assist the Compensation Committee in discharging its duties and responsibilities to the extent that the Compensation Committee deems necessary. This includes the authority to approve fees and the other terms and conditions of the advisors' retention. In addition, any of the responsibilities described above may be delegated to one or more subcommittees, as the Compensation Committee may deem necessary or appropriate.

Our Compensation Committee consists of Messrs. Fleming (Chairperson), Matteson, and Shaffer. Our Board has determined that Mr. Shaffer is the only member of the Compensation Committee who is independent under the Nasdaq listing rules. The Compensation Committee met one time during the 2018 fiscal year.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee identifies, evaluates and recommends qualified nominees to serve on our Board, develops and oversees our internal corporate governance processes and maintains a management succession plan. Among other things, the Nominating and Corporate Governance Committee is responsible for:

- reviewing and making recommendations regarding the size, composition and organization of the Board;
- developing and recommending to the Board specific criteria for the selection of directors;
- with respect to director nominees, (i) identifying individuals qualified to become members of the Board (consistent with criteria approved by the Board), (ii) reviewing the qualifications of any such person submitted to be considered as a director, and (iii) selecting the director nominees for the annual meeting of stockholders or to fill vacancies on the Board;
- developing and periodically reassessing policies and procedures with respect to the consideration of any director candidate recommended by stockholders or otherwise;
- reviewing and making recommendations to the Board with respect to the size, composition and organization of Board committees (other than the Nominating and Corporate Governance Committee);
- recommending procedures for the effective functioning of the Board;
- assisting the Board in determining whether individual directors have material relationships with the Company that may interfere with their independence;
- overseeing the Board's annual self-evaluation process and reporting annually to the Board with an assessment of the Board's performance;
- developing and maintaining an orientation program for new directors and continuing education programs for directors; and
- reviewing and discussing, as appropriate, with management the Company's public disclosures and its disclosures to stock exchanges relating to independence, governance and director nomination matters, including in the Company's proxy statement.

The Nominating and Corporate Governance Committee consists of Messrs. Fleming (Chairperson), Owens and Matteson. Our Board has determined that none of the members of our Nominating and Corporate Governance Committee are independent under the Nasdaq listing rules. The Nominating and Corporate Governance Committee did not meet during the 2018 fiscal year.

Role of the Board in Risk Oversight

Our Board, as a whole and through its committees, has responsibility for the oversight of risk management at the Company. In its risk oversight role, our Board has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. The Board receives reports from management on financial, operational, legal compliance and reputation risks and the degree of exposure to those risks. The Board helps ensure that management is properly focused on risk by, among other things, reviewing and discussing the performance of senior management and business units of the Company.

Our Board oversees an enterprise-wide approach to risk management, which is designed to (i) support the achievement of organizational objectives, including strategic objectives, (ii) improve long-term organizational performance and (iii) enhance stockholder value. Several Board committees are responsible for risk oversight in specific areas. For example, the Audit Committee oversees financial, accounting and internal control risk management policies and approves the independent auditor and its annual audit plan. The Audit Committee also reports periodically to the Board on the effectiveness of risk management processes in place and the overall risk assessment of the Company's activities. The Compensation Committee assesses and monitors risks in the Company's compensation program. For more information on the responsibilities of the committees of our Board, see the discussion about the respective committees under the heading "Committees of the Board."

Code of Business Conduct and Ethics

We are committed to having sound corporate governance principles. Such principles are essential to running our business efficiently and maintaining our integrity in the marketplace. We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, including our executive officers, and the members of our Board. The Code of Business Conduct and Ethics is available on our Investor Relations website at <http://ir.constructionpartners.net/> under the heading "Corporate Governance - Governance Documents." Any future changes or amendments to the Code of Business Conduct and Ethics, and any waiver thereof that applies to our Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, will be posted on our website and otherwise reported in accordance with SEC and Nasdaq rules.

Corporate Governance Guidelines

The Board has adopted Corporate Governance Guidelines to assist the Board and its committees in the exercise of their responsibilities. The Corporate Governance Guidelines set forth guiding principles and provide a flexible framework for the governance of the Company. The Corporate Governance Guidelines address, among other things, board composition, director qualifications and responsibilities, and stockholder communications with the Board. The Nominating and Corporate Governance Committee is responsible for regularly reviewing and providing recommendations to the Board on the Corporate Governance Guidelines, and the full Board will approve changes as it deems appropriate. A copy of the Corporate Governance Guidelines is available on our Investor Relations website at <http://ir.constructionpartners.net/> under the heading "Corporate Governance - Governance Documents."

Nomination and Consideration of Director Candidates

Procedures of the Board and Nominating and Corporate Governance Committee - General

The Nominating and Corporate Governance Committee of the Board is responsible for identifying and evaluating qualified candidates for election to the Board. Following its evaluation, the Nominating and Corporate Governance Committee recommends to the full Board a slate of director candidates for inclusion in the Company's proxy statement. These recommendations are based on an evaluation that is consistent with the criteria for selecting directors described below and are also consistent with the Company's organizational documents and applicable law and listing rules. The backgrounds and qualifications of the directors, considered as group, are intended to provide a significant mix of experience, knowledge and abilities to allow the Board to fulfill its responsibilities.

In evaluating the suitability of director candidates, the Board and the Nominating and Corporate Governance Committee consider many factors, including the nominee's integrity and judgment; independence; knowledge and skills; experience and accomplishments; contribution to board diversity; contribution to board interaction; availability and willingness to commit to participate in Board and committee activities; compatibility with the Company's management team and culture; understanding of the Company's business; and other factors that the Nominating and Corporate Governance Committee concludes are pertinent in light of the then-current needs of the Board. The Board believes that its membership should reflect a diversity of experience, gender, race, ethnicity and age. The Nominating and Corporate Governance Committee selects qualified nominees and reviews its recommendations with the Board, which decides whether to nominate a particular candidate for election or invite such candidate to join the Board. When evaluating the suitability of an incumbent director for nomination or re-election, the Board and the Nominating and Corporate Governance Committee also consider the director's past performance, including attendance at meetings and participation in and contributions to the activities of the Board. The Nominating and Corporate Governance Committee may consider individuals recommended by Board members, management, stockholders and, if it deems appropriate, a professional search firm.

The Board may also consider candidates to fill a vacancy in the Board outside of the stockholder meeting process. In such a case, the Nominating and Corporate Governance Committee uses the same criteria used to evaluate a director nominee to be elected by stockholders. In the event of a vacancy to be filled by the Board, the Nominating and Corporate Governance Committee will recommend to the Board one or more candidates for election by the Board, and proxies will not be solicited.

Recommendations of Director Candidates by Stockholders

In December 2018, the Board adopted a formal policy governing the manner in which the Nominating and Corporate Governance Committee will consider director candidates recommended by the Company's stockholders. Candidates recommended by stockholders will be evaluated in the same manner as candidates recommended by directors or management according to the criteria set forth above.

Stockholders who wish to recommend candidates for the Nominating and Corporate Governance Committee's consideration must submit a written recommendation to the Secretary of the Company at 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303. Recommendations must be sent by certified or registered mail and received by October 1 for consideration at the following year's annual meeting of stockholders. Recommendations must include the following:

- the recommending stockholder's name, number of shares owned, length of period held, proof of ownership and written certification that such recommending stockholder intends to continue to remain a stockholder through the date of the annual meeting with respect to which the candidate is to be nominated;
- the candidate's name, address, phone number, e-mail address and age;
- a resume describing, at a minimum, the candidate's educational background, occupation, employment history and material outside commitments (e.g., memberships on other boards and committees, charitable foundations, etc.);
- a supporting statement that describes the stockholder's and candidate's reasons for nomination to the Board and demonstrates the candidate's ability to satisfy the director qualifications described above;
- the candidate's consent to a background investigation;
- a notarized affidavit executed by the candidate to the effect that, if nominated and elected, he or she will serve, is eligible for election as a member of the Board, and consents to being named in the proxy statement as a nominee, if he or she will in fact be so named;
- a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years between the nominating stockholder and the candidate;
- a description of any voting commitments and/or any other arrangements or obligations by which the candidate is or will be bound as a director;
- a completed questionnaire regarding the candidate, which may be obtained from the Secretary of the Company, relating to the stock exchange listing requirements for director independence that are applicable to the Company; and
- any other information relating to the recommended stockholder and the candidate that would be required to be disclosed in a proxy statement on Schedule 14A for solicitation of proxies for election of directors under the Exchange Act and pursuant to Nasdaq rules and any other applicable laws, rules or regulations.

The Secretary will promptly forward these materials to the Chairperson of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee may contact recommended candidates to request additional information necessary for its evaluation or for disclosure under applicable SEC rules, including, without limitation, information relating to such candidate that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act. The Nominating and Corporate Governance Committee will consider a recommendation only if appropriate biographical information and background material is provided on a timely basis.

In considering a candidate, the Nominating and Corporate Governance Committee will consider the size and duration of a recommending stockholder's ownership interest in the Company. In addition, any candidate proposed by a stockholder must be independent of the nominating stockholder in all respects (i.e., free of any material personal, professional, financial or business relationships from the nominating stockholder) as determined by the Nominating and Corporate Governance Committee or by applicable law and must also meet the definition of an "independent director" under applicable Nasdaq rules. The candidate must be expected to contribute in a positive manner to the function of the Board in light of the factors for consideration described above.

Except as may be required by applicable law, rule or regulation, the Nominating and Corporate Governance Committee will have no obligation to acknowledge receipt of the recommendation and accompanying materials described above or otherwise communicate with the stockholder submitting the same.

Stockholder Nominations of Director Candidates at Meetings of Stockholders

Separate procedures apply if a stockholder wishes to nominate a director candidate for election at a meeting of stockholders. These procedures, as well as the Company's director qualifications, are specified in the Company's amended and restated by-laws and are summarized below. Nothing in the above-described procedures for stockholders to recommend candidates to the Nominating and Corporate Governance Committee supersedes any requirements set forth in the amended and restated by-laws for the nomination of a director candidate by a stockholder of the Company.

Section 3.2 of the Company's amended and restated by-laws provides procedures pursuant to which stockholders may nominate director candidates at meetings of stockholders. To provide timely notice of a director nomination at an annual meeting of stockholders, the stockholder's notice must be received by the Secretary of the Company at the principal executive offices of the Company, located at 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303: (i) with respect to an annual meeting, not earlier than the 120th day before, and not later than the 90th day before, the first anniversary of the date of the preceding year's annual meeting, (ii) if the date of the applicable annual meeting is more than 30 days before or 60 days after the first anniversary of the prior year's annual meeting, not earlier than the 120th day before the date of such annual meeting, and not later than the later of (x) the 90th day before the meeting or (y) the 10th day following the day on which public announcement of the date of the annual meeting is first made by the Company, and (iii) with respect to any special meeting of stockholders called for the purpose of electing directors, not earlier than the 120th day prior to such special meeting and not later than the later of (x) the 90th day before the meeting or (y) the 10th day following the day on which public announcement of the date of the special meeting is first made by the Company. However, if the number of directors to be elected at an annual meeting is greater than the number of directors whose terms expire on the date of the annual meeting and there is no public announcement by the Company naming all of the nominees for the additional directors to be elected or specifying the size of the increased Board before the 90th day prior to the anniversary date of the immediately preceding annual meeting of stockholders, a stockholder's notice will also be considered timely if received not later than the 10th day following the date on which the public announcement was first made by the Company, but only with respect to nominees for the additional directorships created by such increase that are to be filled by election at such annual meeting.

A nominating stockholder's notice must also satisfy the information requirements specified in Section 3.2(d) of our amended and restated by-laws with respect to the nominee for director and the nominating stockholder. Additionally, in order to be eligible for nomination, a potential nominee must deliver to the Secretary of the Company (i) a completed questionnaire providing information concerning the background and qualifications of that person and (ii) a written representation and agreement in a form to be provided by the Secretary pertaining to, among other things, any voting commitments made by the potential nominee and compensation that the nominee expects to receive other than from the Company as a result of his or her service as a director. The Company may require any proposed nominee or stockholder who nominates the proposed nominee to furnish such other information as the Company may reasonably require to determine the eligibility of the proposed nominee to serve as a director of the Company or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of the proposed nominee. The chairman of the meeting of stockholders will determine whether or not a nomination was made in accordance with the procedures set forth in our amended and restated by-laws. If the chairman determines that a nomination is defective, he will declare to the meeting that such nomination is defective, and the nomination will be disregarded.

Our amended and restated by-laws are available on the SEC's website at <http://www.sec.gov>. You may also obtain a copy of the relevant provisions of our amended and restated by-laws regarding the requirements for nominating director candidates at no charge by contacting our Secretary at 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303. Additionally, a copy of our amended and restated by-laws is available on our website at www.constructionpartners.net under the "Investors - Corporate Governance" tab.

Executive Sessions

The Company's Corporate Governance Guidelines require non-management directors to meet regularly in executive sessions without management present. These sessions may be chaired by the Chairman of the Board or the chairperson on any committee of the Board, so long as such person is not a member of management.

Stockholder Communications with the Board

The Board will give appropriate attention to written communications that are submitted by stockholders and will respond as the Board deems appropriate. Interested parties who wish to contact an individual director, the Board as a group, or a specified Board committee or group, including the independent directors as a group, should address such communications to:

Construction Partners, Inc.
c/o Secretary
290 Healthwest Drive, Suite 2
Dothan, Alabama 36303

Each communication should specify the applicable addressee(s) to be contacted, as well as the general topic of the communication. The Secretary of the Company will initially receive and process communications before forwarding them to the addressee.

EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

Compensation of Executive Officers

We are an “emerging growth company” and “smaller reporting company” under applicable SEC rules and are providing disclosure regarding our executive compensation arrangements pursuant to the rules applicable to smaller reporting companies, which means that we are not required to provide a compensation discussion and analysis and certain other disclosures regarding our executive compensation.

Our executive compensation program is designed to attract, motivate and retain high-quality leadership and incentivize our executive officers to achieve performance goals over the short- and long-term, which also aligns the interests of our executive officers with those of our stockholders. The following discussion relates to the compensation of Charles E. Owens, our President and Chief Executive Officer, and our two most highly compensated executive officers during the 2018 fiscal year other than Mr. Owens: R. Alan Palmer, our Executive Vice President and Chief Financial Officer, and F. Julius Smith, III, our Senior Vice President. Messrs. Owens, Palmer and Smith are collectively referred to herein as our “named executive officers.” All information presented gives pro forma effect to the Reclassification.

Summary Compensation Table

The following table sets forth, for the fiscal years ended September 30, 2018 and 2017, a summary of the compensation paid to or earned by our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$) ⁽¹⁾	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽³⁾	All Other Compensation (\$) ⁽⁴⁾	Total (\$)
Charles E. Owens	2018	450,000	1,074,000	-	-	33,041	1,557,041
<i>President and Chief Executive Officer</i>	2017	450,000	715,000	-	-	22,244	1,187,244
R. Alan Palmer	2018	310,000	837,000	273,014	-	34,672	1,454,686
<i>Executive Vice President and Chief Financial Officer</i>	2017	307,692	360,000	-	-	24,168	691,860
F. Julius Smith, III	2018	400,000	677,000	-	-	77,289	1,154,289
<i>Senior Vice President</i>	2017	396,250	565,000	-	412,062	22,042	1,395,354

(1) The amounts in this column consist of the named executive officers’ respective cash bonus awards, which are awarded on a discretionary basis. In addition, for Mr. Smith, the amount shown includes \$300,000 of cash retention payments made pursuant to his employment and non-competition agreement during each of the 2017 and 2018 fiscal years.

(2) The amount in this column represents the grant date fair value of an award of 35,280 restricted shares of our Class B common stock to Mr. Palmer on February 23, 2018, of which 17,640 shares vested on the grant date and 17,640 shares vested on July 1, 2018, computed in accordance with Accounting Standards Codification Topic 718, *Compensation - Stock Compensation* (“ASC Topic 718”).

(3) The amount in this column represents the grant date fair value of a non-plan option award granted to Mr. Smith on March 7, 2017 to purchase 74,592 shares of our Class B common stock at an exercise price of \$0.04 per share, computed in accordance with ASC Topic 718 and excluding the effect of estimated forfeiture. For assumptions used in determining the fair value of option awards, see Note 15 (Equity-Based Compensation) to our consolidated financial statements included in our Annual Report. This option represents part of the consideration paid in the Company’s acquisition of FSC II, LLC (“FSC”).

(4) The amounts in this column include the following items: (a) for each of the named executive officers, the value of his personal use of a Company-owned vehicle, 401(k) plan matching contributions, mobile device subscription fees paid on the officer’s behalf, and Company-paid premiums for health and life insurance; (b) for each of Messrs. Owens and Palmer, Company-paid premiums for long-term care benefits (2017 only) and long-term disability insurance; and (c) for Mr. Smith, Company-paid club dues. The value to the named executive officers of their personal use of Company-owned automobiles is based on the incremental cost to the Company of such use, which the Company has calculated as the total variable expense associated with operation of such automobiles during the applicable period.

Employment Agreements

On June 27, 2014, FSC, our indirect wholly owned subsidiary, entered into an employment and non-competition agreement with Mr. Smith, pursuant to which Mr. Smith serves as President of FSC. The initial term of the agreement continues until June 30, 2019. The agreement provides for Mr. Smith to receive during the initial term an annual base salary of not less than \$350,000 (which was increased to \$400,000 effective January 1, 2017 and to \$420,000 effective January 1, 2019). At the end of the initial term, the agreement automatically extends on a month-to-month basis, unless either party provides written notice of termination before the end of the month in which the agreement is to be terminated. In addition, Mr. Smith receives monthly retention payments of \$25,000 until June 30, 2019, unless his employment is terminated earlier by either party. Mr. Smith is eligible to receive discretionary bonuses as the Compensation Committee may determine.

Mr. Smith is eligible for the benefits and holidays offered to other FSC employees. Mr. Smith is entitled to family medical coverage and dental insurance at the expense of FSC under any health or dental insurance plan maintained by FSC for its employees, and to 15 days of paid vacation each year. Mr. Smith also is entitled to use a cellular phone provided by FSC and an FSC-provided automobile in his conduct of FSC business, for which FSC bears the maintenance costs. For as long as FSC is making retention payments to Mr. Smith, FSC will maintain and pay for a term life insurance policy on Mr. Smith's life in the amount of \$2.0 million, for which Mr. Smith may designate the beneficiary or beneficiaries.

Non-Plan Stock Options

On March 31, 2010, we granted non-plan stock options to Grace, Ltd., a limited partnership for which Mr. Owens serves as general partner, and to Mr. Palmer. The options provided for the purchase of 238,773 shares and 394,308 shares of our Class B common stock by Grace, Ltd. and Mr. Palmer, respectively, at an exercise price of \$5.70 per share. These options were exercised in full by Grace, Ltd. and Mr. Palmer on June 29, 2018.

On March 7, 2017, we granted a non-plan stock option to Mr. Smith. The option provides for the purchase of 74,592 shares of our Class B common stock at an exercise price of \$0.04 per share. The option was fully vested upon the date of grant, but is exercisable only during the ten-day period immediately preceding a change in control of the Company, as defined in the option agreement, which has not occurred. The option expires on the earliest of (i) the termination of Mr. Smith's services, whether as our employee, director or consultant, (ii) March 7, 2027, and (iii) the occurrence of a change in control, after which all unexercised options will be canceled.

Construction Partners, Inc. 2016 Equity Incentive Plan

On August 19, 2016, our Board adopted and our stockholders approved the Construction Partners, Inc. 2016 Equity Incentive Plan (the "2016 Equity Plan") to facilitate the recruitment and retention of employees, consultants and directors who would contribute to our long-term success and to provide incentives linked directly to increases in share value, which would inure to the benefit of all of our stockholders. As described below, the 2016 Equity Plan was amended and restated during our 2018 fiscal year and is no longer an active equity incentive plan of the Company. The 2016 Equity Plan provided for the grant of awards of options, restricted stock and restricted stock units, performance awards, stock appreciation rights and other stock-based awards, and was administered by our Compensation Committee. The maximum number of shares available for awards under the 2016 Equity Plan was 378,000 shares of our Class B common stock.

On February 23, 2018, we granted certain officers and other employees a total of 126,000 restricted shares of our Class B common stock under the 2016 Equity Plan, 63,000 of which vested on the date of grant and 63,000 of which vested on July 1, 2018. In connection with this grant, Mr. Palmer was awarded 35,280 restricted shares of our Class B common stock, of which 17,640 shares vested on the date of grant and 17,640 shares vested on July 1, 2018.

The 2016 Equity Plan provided that if an award under the 2016 Equity Plan was canceled, expired or otherwise terminated, or was forfeited or settled for cash and not in shares, then the shares subject to such award would revert to, and again be available for new awards under, the 2016 Equity Plan. As of September 30, 2018, there were no shares of our Class B common stock subject to outstanding awards or available for additional awards under the 2016 Equity Plan.

Construction Partners, Inc. 2018 Equity Incentive Plan

On April 22, 2018, our Board and a majority of our stockholders adopted an amendment and restatement of the 2016 Equity Plan and renamed it the Construction Partners, Inc. 2018 Equity Incentive Plan (the “2018 Equity Plan”) pursuant to which our employees, directors and consultants (and those of our affiliates), including our named executive officers, are eligible to receive awards. The 2018 Equity Plan provides for the grant of options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards and performance awards intended to align the interests of participants with those of our stockholders.

Eligibility. Employees, non-employee directors and consultants of the Company and our affiliates are eligible to receive awards under the 2018 Equity Plan.

Administration. The 2018 Equity Plan is administered by our Compensation Committee. The Compensation Committee has the power to determine when and to whom awards are granted, determine the number of shares for awards, prescribe and interpret the terms and provisions of each award agreement (the terms of which may vary), accelerate the exercise terms of an award, delegate duties under the 2018 Equity Plan and execute all other responsibilities permitted or required thereunder.

Shares Available for Issuance. Subject to adjustment in the event of any distribution, recapitalization, stock split, merger, consolidation or similar corporate event, 2,000,000 shares of our Class A common stock (the “Share Pool”) are available for issuance pursuant to awards under the 2018 Equity Plan. If an award under the 2018 Equity Plan is forfeited, settled for cash or expires without the actual delivery of shares, any shares subject to such award will revert to the Share Pool and again be available for new awards under the 2018 Equity Plan.

Types of Awards.

Options. We may grant options to eligible persons, including: (i) incentive options (only to our employees or those of our affiliates) that comply with Section 422 of the Internal Revenue Code of 1986 (the “Code”); and (ii) nonqualified options that are not intended to be incentive options. The exercise price of each option granted under the 2018 Equity Plan will be stated in the award agreement and may vary; however, the exercise price for an option will not be less than the fair market value per share of our Class A common stock as of the date of grant (or 110% of the fair market value for incentive options granted to holders of more than 10% of the voting power of all classes of our and our affiliates’ common stock), nor will the option be re-priced without the prior approval of our stockholders. The fair market value per share of our Class A common stock will be determined based on reported transactions on the Nasdaq Global Select Market. Options may be exercised as the Compensation Committee determines, but not later than ten years from the date of grant. The Compensation Committee will determine the methods and form of payment for the exercise price of an option (including, in the discretion of the Compensation Committee, payment by promissory note or by withholding of otherwise deliverable shares) and the methods and forms in which our Class A common stock will be delivered to a participant.

Stock Appreciation Rights. A stock appreciation right is the right to receive an amount equal to the excess of the fair market value of one share of our Class A common stock on the date of exercise over the grant price of the stock appreciation right, payable in either cash or shares of Class A common stock or any combination thereof as determined by the Compensation Committee. The per share grant price of a stock appreciation right will be determined by the Compensation Committee, but in no event will the grant price be less than the fair market value of our Class A common stock on the date of grant, determined as described for options above. The Compensation Committee will have the discretion to determine other terms and conditions of a stock appreciation rights award.

Restricted Stock Awards. A restricted stock award is a grant of shares of our Class A common stock subject to a risk of forfeiture, performance conditions, restrictions on transferability and any other restrictions imposed by the Compensation Committee in its discretion. Restrictions may lapse at such times and under such circumstances as determined by the Compensation Committee. Except as otherwise provided under the terms of the award agreement, the holder of a restricted stock award will have rights as a stockholder, including the right to vote the shares subject to the restricted stock award or to receive dividends on the shares subject to the restricted stock award during the restriction period. The Compensation Committee will provide, in the award agreement, whether the restricted stock will be forfeited upon certain terminations of employment. Unless otherwise determined by the Compensation Committee, Class A common stock distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, will be subject to restrictions and a risk of forfeiture to the same extent as the restricted stock award with respect to which such Class A common stock or other property has been distributed.

Restricted Stock Units. Restricted stock units are rights to receive shares of our Class A common stock, cash or a combination of both stock and cash at the end of a specified period. The Compensation Committee may subject restricted stock units to restrictions (which may include a risk of forfeiture) to be specified in the award agreement, which restrictions may lapse at such times determined by the Compensation Committee. Restricted stock units may be settled by delivery of shares of our Class A common stock, cash equal to the fair market value of the specified number of shares covered by the restricted stock units or any combination thereof determined by the Compensation Committee at the date of grant or thereafter. The participant will not be entitled to receive dividends or dividend equivalents unless the award agreement specifically provides therefor.

Performance Awards. The vesting, exercise or settlement of awards may be subject to achievement of specified objective or subjective performance goals based on one or more business criteria set forth in the 2018 Equity Plan. The Compensation Committee may use one or more of the following criteria, which may be applied to a participant, a business unit or to us and our affiliates, in establishing performance goals for such performance awards: revenues; earnings before all or any of interest expense, taxes, depreciation and/or amortization; funds from operations; funds from operations per share; operating income; operating income per share; pre-tax or after-tax income; net cash provided by operating activities; cash available for distribution; cash available for distribution per share; working capital and components thereof; sales (net or gross) measured by product line, territory, customer or customers or other category; return on equity or average stockholders' equity; return on assets; return on capital; enterprise value or economic value added; share price performance; improvements in our attainment of expense levels; implementation or completion of critical projects; improvement in cash-flow (before or after tax); net earnings; earnings per share; earnings from continuing operations; net worth; credit rating; levels of expense, cost or liability by category, operating unit or any other delineation; any increase or decrease of one or more of the foregoing over a specified period; or the occurrence of a change in control (as defined in the 2018 Equity Plan).

The Compensation Committee may provide in any performance award for the inclusion or exclusion of the effect on reported financial results of any of the following events or occurrences: asset write-downs; litigation or claim judgments or settlements; changes in tax laws, accounting principles or other laws or provisions; reorganization or restructuring programs, including share repurchase programs; acquisitions or divestitures; foreign currency exchange translation gains or losses; any loss from a discontinued operations; goodwill impairment charges; revenue or earnings attributable to a minority ownership in another entity; any amounts accrued by us or any subsidiary pursuant to management bonus plans or cash profit-sharing plans and related employer payroll taxes for the fiscal year; any discretionary or matching contributions made to a savings and deferred profit-sharing plan or deferred compensation plan for the fiscal year; interest, expenses, taxes, depreciation and depletion, amortization and accretion charges; and gains and losses that are treated as extraordinary items. The level or levels of performance specified with respect to a performance goal may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more comparable companies or an index covering multiple companies on a per-share basis, against our performance as a whole or against one or more of our entities, segments, operating units or products, on a pre-tax or after-tax basis, in tandem with any other performance goal, or otherwise as the Compensation Committee may determine.

Other Stock-Based Awards. The Compensation Committee may grant other stock-based awards that are payable in, valued in whole or in part by reference to, or otherwise based on our Class A common stock, including, without limitation, dividend equivalent rights.

Change in Control and Other Corporate Transactions. In the event of a change in control (as defined in the 2018 Equity Plan) or certain other significant corporate transactions, outstanding awards will be treated as the Compensation Committee determines in its discretion. The Compensation Committee may (i) arrange for continuation or assumption of awards, or substitution of equivalent awards of the surviving entity or its parent; (ii) cancel awards in exchange for cash or securities in an amount equal to the value of vested awards, or to the difference between the value of the underlying shares of our Class A common stock and the exercise price for vested options and stock appreciation rights; or (iii) cancel outstanding awards without payment of any consideration, in which case participants will be given a reasonable period during which to exercise their awards.

Plan Amendment or Termination. Either our Board or our Compensation Committee may amend or terminate the 2018 Equity Plan. However, stockholder approval will be required for any amendment to the extent necessary to comply with applicable law or exchange listing rules. In addition, either our Board or our Compensation Committee may amend awards granted under the 2018 Equity Plan, but no amendment may impair the rights of a participant under any outstanding award without his or her consent. The 2018 Equity Plan will remain in effect for a period of ten years unless earlier terminated by our Board or the Compensation Committee.

Incentive Compensation Recoupment Policy

On December 6, 2018, our Board adopted a Policy for the Recoupment of Incentive Compensation (the “Recoupment Policy”), which provides that, in the event that the Company is required to prepare an accounting restatement of its financial statements due to material noncompliance with financial reporting requirements under the securities laws, we are required to use reasonable efforts to recoup from current and former executive officers any excess incentive compensation received by them during the three completed fiscal years immediately preceding the date on which we are required to prepare an accounting restatement. The Recoupment Policy is intended to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act and proposed SEC rules thereunder, which we believe represents best practice. The Recoupment Policy applies to incentive compensation (cash and equity) that is approved, awarded or granted to our executive officers on or after December 6, 2018. The Recoupment Policy applies irrespective of whether an executive officer engaged in fraud or other misconduct.

Cash and equity awards that are granted, earned or vested wholly or in part on the attainment of a financial reporting measure are subject to recoupment based on a restatement of our financial statements. We may recoup incentive compensation by (i) requiring reimbursement of cash incentive compensation previously paid, (ii) seeking recovery of any gain realized on vesting, exercise, settlement, sale, transfer or other disposition of any equity-based awards, (iii) offsetting the recouped amount from any compensation otherwise owed by us to the current or former executive officer, (iv) cancelling outstanding vested or unvested equity awards and/or (v) taking any other remedial or recovery action permitted by law. There is no time limit on our ability to recover amounts under the Recoupment Policy other than limits imposed by law, and recoupment is available to us regardless of whether the executive officer is still employed by us when repayment is required. Our Compensation Committee, designated by the Board as the administrator of the Recoupment Policy, is responsible for determining whether recoupment is required under the Recoupment Policy and for making all other determinations for the administration of the Recoupment Policy.

Outstanding Equity Awards at Fiscal Year-End

The following table presents information regarding outstanding equity-based awards held by our named executive officers as of September 30, 2018.

Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$)	Option Expiration Date
Charles E. Owens	-	-	-	-
R. Alan Palmer	-	-	-	-
F. Julius Smith, III	-	74,592	\$0.04	March 7, 2027 ⁽¹⁾

⁽¹⁾ Mr. Smith’s option was granted pursuant to a written option agreement, dated March 7, 2017, and may be exercised only on the occurrence of a change in control of the Company, as defined in the option agreement. The option expires on the earliest of (i) the termination of Mr. Smith’s services, whether as our employee, director or consultant, (ii) March 7, 2027, or (iii) the occurrence of a change in control of the Company, after which all unexercised options will be canceled. This option represents part of the consideration paid in the Company’s acquisition of FSC.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides certain information regarding options and rights outstanding under our equity compensation plans as of September 30, 2018.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	(b) Weighted- Average Exercise Price of Outstanding Options and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity Compensation Plans Approved by Security Holders	-	-	2,000,000 ⁽²⁾
Equity Compensation Plans Not Approved by Security Holders	74,952 ⁽¹⁾	\$0.04	-
Total	-	-	-

(1) Represents shares of Class B common stock issuable pursuant to a non-plan option granted to Mr. Smith on March 7, 2017 that becomes exercisable only in the event of a change in control of the Company, as defined in the option agreement.

(2) Represents shares of Class A common stock available for issuance under the 2018 Equity Plan, described above, under which no awards were issued or outstanding as of September 30, 2018.

Retirement Benefits

We do not provide defined benefit pension payments. Our named executive officers are eligible to participate in the Construction Partners Holdings, Inc. 401(k) Plan (the “401(k) Plan”) on the same basis as other employees who satisfy the 401(k) Plan’s eligibility requirements. As such, our named executive officers, along with other 401(k) Plan participants, are eligible for discretionary employer matching contributions and discretionary contributions. Effective January 1, 2017, all 401(k) Plan participants are eligible for employer matching contributions equal to 100% of the participant’s elective deferral contributions up to 3% of the participant’s compensation, plus 50% of the participant’s elective deferral contributions that exceed 3% of the participant’s compensation but are not more than 5% of the participant’s compensation.

Potential Payments upon Termination or a Change in Control

Employment Agreements

If FSC terminates Mr. Smith’s employment for any reason, with or without cause (as defined in his employment and non-competition agreement), then he will be entitled to continued payment of his retention payments of \$25,000 per month until June 30, 2019. In addition, if Mr. Smith’s employment with FSC is terminated either voluntarily by Mr. Smith or by FSC for any reason except his death, then FSC has the right to elect to enforce a two-year non-compete period, pursuant to which Mr. Smith will be restricted from competing with FSC in road construction, paving, grading, asphalt and any other business activity engaged in by FSC within 75 miles of the city limits of Raleigh, North Carolina. If FSC makes such an election, then Mr. Smith will be entitled to monthly non-compete payments equal to his then-current monthly base salary for the 24-month non-compete period.

Option Agreement

As described above under the heading “Non-Plan Stock Options,” Mr. Smith has an option to purchase 74,592 shares of our Class B common stock at an exercise price of \$0.04 per share during the ten-day period immediately preceding a change in control of the Company, as described in the option agreement. This option represents part of the consideration paid in the Company’s acquisition of FSC.

Role of Executive Officers in Determining Executive Compensation

The Compensation Committee makes all compensation decisions related to our named executive officers. Our Chief Executive Officer regularly provides information and recommendations to the Compensation Committee on the performance of the executive officers and appropriate levels and components of compensation, as well as other information that the Compensation Committee may request. However, our Chief Executive Officer does not participate in any Compensation Committee deliberations or determinations with respect to his own compensation.

Role of Compensation Consultant in Determining Executive Compensation

Under its charter, the Compensation Committee has the authority to retain its own compensation consultant. During the first quarter of our 2018 fiscal year, prior to our initial public offering, the Compensation Committee retained Ernst & Young LLP (“Ernst & Young”) to review, assess and provide input on certain aspects of our compensation program for executive officers in connection with the Company’s transition to becoming a public company. In particular, Ernst & Young examined the overall pay mix for our executive officers, conducted a competitive assessment of our executive compensation program, and made recommendations to the Compensation Committee on compensation design and competitive market levels. The Company paid Ernst & Young approximately \$41,000 for these services. The information furnished by Ernst & Young was one factor that the Compensation Committee used in making decisions about executive compensation during the 2018 fiscal year.

During the 2018 fiscal year, Ernst & Young and its affiliates did not provide any additional services to the Company, but did provide tax preparation and consultation services to SunTx, the Company’s controlling stockholder, for which SunTx paid approximately \$319,000. The decision to engage Ernst & Young for the services provided to SunTx was not made or recommended by the Company’s management, and neither the Compensation Committee nor the Board approved such services. The Compensation Committee believes that, given the limited duration and scope of Ernst & Young’s engagement by the Company and the unrelated nature of the services that Ernst & Young provided to SunTx, Ernst & Young did not have any relationships or other economic interests at the time that it provided services to the Company that would impair its ability to provide independent advice concerning executive and director compensation matters.

Director Compensation

2018 Fiscal Year Compensation. During the fiscal year ended September 30, 2018, our directors were not compensated for their service on the Board, except for Michael H. McKay, who received an annual cash retainer of \$60,000. However, the Company did reimburse all ordinary and necessary expenses incurred by our directors in the conduct of the Board’s business. Mr. Owens, our President and Chief Executive Officer, was not compensated for his service on the Board during fiscal year 2018. The compensation received by Mr. Owens for his service as the Company’s President and Chief Executive Officer is set forth above under the heading “Summary Compensation Table.”

The following table summarizes the compensation of our non-employee directors during the fiscal year ended September 30, 2018.

Name	Fees Earned or Paid in Cash (\$)	Total (\$)
Ned N. Fleming, III	-	-
Craig Jennings	-	-
Mark R. Matteson	-	-
Michael H. McKay	60,000	60,000
Stefan L. Shaffer	-	-
David Webb ⁽¹⁾	-	-

⁽¹⁾ Mr. Webb resigned from his position as a member of our Board on November 15, 2017 and was replaced by independent Board member Stefan L. Shaffer.

2019 Fiscal Year Compensation. In December 2018, our Board approved a new annual retainer framework for Board members. Beginning in the 2019 fiscal year, the Executive Chairman receives an annual retainer of \$275,000, and each of the other non-employee directors receives an annual retainer of \$110,000. The retainer is payable in cash or equity. Directors who are also employees of the Company will not receive any additional compensation for their service on the Board. The Company will reimburse all ordinary and necessary expenses incurred by our directors in the conduct of the Board’s business.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Review and Approval of Related Party Transactions

On April 22, 2018, our Board adopted a written policy for the review, approval and ratification of transactions with related parties. The policy covers transactions between the Company and any of our executive officers and directors or their respective affiliates, director nominees, 5% or greater security holders or family members of any of the foregoing. Our Audit Committee reviews transactions covered by this policy to determine, among other things:

- whether the terms of the transaction are fair to the Company, have resulted from arm's length negotiations and are on terms at least as favorable as would apply if the transaction did not involve a related party;
- whether there are demonstrable business reasons for the Company to enter into the transaction;
- whether the transaction is material to the Company;
- the role the related party played in arranging the transaction;
- whether the transaction could impair the independence of a director; and
- the interests of all related parties in the transaction.

A related party transaction will only be approved or ratified by the Audit Committee if the Audit Committee determines that the transaction is beneficial to the Company and the terms of the transaction are fair to the Company.

Historically, our management and Board have reviewed and approved related party transactions. The terms of the related party transactions and agreements described below were determined by and among affiliated entities and, consequently, are not necessarily the result of arm's length negotiations. Although it is possible that we could have negotiated more favorable terms for such transactions with unrelated third parties, our management and Board believe that the terms of the related party transactions described below are reasonable, fair and beneficial to the Company.

Transactions with Related Parties

We have engaged in, and continue to engage in, related party transactions with certain current and former directors, members of management and beneficial holders of more than 5% of our common stock. The following summarizes certain transactions with these related parties.

Management Services Agreement

Construction Partners Holdings, Inc., a wholly owned subsidiary of the Company ("CPHI"), is a party to a management services agreement with SunTx Capital Management Corp. ("SunTx Capital Management"), an affiliate of SunTx. Pursuant to the agreement, SunTx Capital Management provides management services to CPHI, including management services with respect to financing, business strategies and business development, in return for a monthly fee of \$83,333, plus an amount not exceeding 2% of the total value of any acquisition, disposition, debt or equity financings by CPHI and out-of-pocket expenses. For these management services, CPHI paid SunTx Capital Management approximately \$1.3 million and \$1.5 million during the fiscal years ended September 30, 2017 and 2018, respectively. The management services agreement expires on October 1, 2023.

Registration Rights Agreement

We are a party to a registration rights agreement (the “Registration Rights Agreement”) with certain related parties, including (i) SunTx CPI Expansion Fund, L.P., SunTx Fulcrum Fund Prime, L.P., SunTx Fulcrum Dutch Investors Prime, L.P., and Grace, Ltd., each of which owns more than 5% of our Class B common stock, (ii) Michael H. McKay, a director of the Company, and (iii) R. Alan Palmer and John L. Harper, executive officers of the Company (collectively, together with the other parties to the Registration Rights Agreement, the “RRA Holders”). Pursuant to the Registration Rights Agreement, we are required to register under the Securities Act of 1933 (the “Securities Act”) shares of our common stock owned by such RRA Holders (the “Registrable Securities”) upon their request under certain circumstances. Specifically, subject to certain restrictions, RRA Holders who own at least 20% of our outstanding Registrable Securities may demand that we register at least 50% of the aggregate number of Registrable Securities owned by such requesting RRA Holders. We are not obligated to file a registration statement pursuant to these demand provisions on more than two occasions on Form S-1. However, the RRA Holders are entitled to make an unlimited number of demands for registration on Form S-3, subject to the limitation that the Company will not be obligated to file more than one registration statement on Form S-3 in response to a registration demand within six months after the effective date of any registration statement that we file in response to a registration demand.

The RRA Holders have “piggyback” registration rights as well. Accordingly, if, at any time, we propose to register an offering of our securities, either for our account or for the account of our other stockholders, we must give written notice to the RRA Holders to allow each to include its shares in the registration, subject to certain marketing and other limitations.

The registration rights are subject to certain conditions and limitations, including the right of the underwriters to limit the number of Registrable Securities to be included in a particular registration and our right to delay or withdraw the registration statement under certain circumstances. We generally will pay all registration expenses in connection with our obligations under the Registration Rights Agreement. The Registration Rights Agreement provides that we will indemnify the RRA Holders against certain liabilities that may arise under the Securities Act and expires on May 4, 2023.

Indemnification Agreements

We have entered into indemnification agreements with each of our current directors and executive officers. We anticipate that future directors and executive officers will enter into indemnification arrangements with us in substantially similar form. The indemnification agreements generally provide, among other things, that we will indemnify and hold harmless each person subject to such agreement (each, an “indemnitee”) to the fullest extent permitted by applicable law from and against all expenses, losses, damages, judgments, fines and other specified costs that may result or arise in connection with such indemnitee serving in his or her capacity as a director or executive officer of the Company or serving at our direction as a director, officer, employee or agent of another entity. These agreements further provide that, upon an indemnitee’s request and subject to certain conditions, we will advance expenses to the indemnitee. Pursuant to the indemnification agreements, an indemnitee is presumed to be entitled to indemnification, and we have the burden of proving otherwise. The indemnification agreements also provide that, to the extent that we maintain an insurance policy providing liability insurance for directors, officers, employees, agents or fiduciaries of the Company, indemnitees shall be covered by such policy to the maximum extent of the available coverage. The foregoing is only a brief description of the indemnification agreements, does not purport to be complete and is qualified in its entirety by reference to the Company’s form of indemnification agreement, which previously has been filed with the SEC.

Other Transactions

On December 31, 2017, we sold an indirect wholly owned subsidiary to Reid Smith, the brother of F. Julius Smith, III, our Senior Vice President, in consideration for a note receivable in the amount of approximately \$1.0 million, which approximated the net book value of the disposed entity. In connection with this transaction, we also received a note receivable from the disposed entity in the amount of approximately \$1.0 million, representing certain accounts payable of the disposed entity that we had previously paid on its behalf. During the 2018 fiscal year, the largest aggregate amount of principal outstanding was the initial principal balance at origination, and the amount of principal paid on each note was \$163,234 and \$88,017, respectively. As of September 30, 2018, the remaining principal balance of each note was approximately \$0.9 million. Each note bears simple interest at a rate of two percent per year, but no interest payments were made on either note during our 2018 fiscal year. Principal and interest payments have been, and will be, made in periodic installments from January 2018 through September 2026.

Since January 30, 2015, FSC has been a party to a master services subcontract with Austin Trucking, LLC (“Austin Trucking”), an entity owned by Jacob R. Austin, the brother-in-law of F. Julius Smith, III, our Senior Vice President. Pursuant to the agreement, Austin Trucking performs subcontract work for FSC, including trucking services. During the fiscal years ended September 30, 2017 and 2018, FSC incurred costs of approximately \$11.8 million and \$13.0 million, respectively, for these subcontract services. As of September 30, 2017 and 2018, we had approximately \$1.0 million and \$0.8 million, respectively, due to Austin Trucking reflected in accounts payable.

FSC provides construction services to various companies owned by Fred J. Smith, Jr., the father of F. Julius Smith, III, our Senior Vice President. During the fiscal years ended September 30, 2017 and 2018, we earned approximately \$5.2 million and \$1.7 million, respectively, for these services. As of September 30, 2017 and 2018, we had \$4.2 million and \$2.7 million, respectively, due from these companies reflected in contracts receivable.

FSC pays a consulting fee to FSC III, LLC, an entity owned by Fred J. Smith, Jr., the father of F. Julius Smith, III, our Senior Vice President. During each of the fiscal years ended September 30, 2017 and 2018, FSC paid approximately \$0.2 million in consulting fees to this entity.

FSC rents vehicles on a month-to-month basis from Fred Smith Company, an entity owned by Fred J. Smith, Jr., the father of F. Julius Smith, III, our Senior Vice President. During each of the fiscal years ended September 30, 2017 and 2018, FSC paid Fred Smith Company approximately \$1.2 million for these rentals.

From time to time, Providence Construction Services, LLC (“Providence”), an entity owned by Reid Smith, the brother of F. Julius Smith, III, our Senior Vice President, provides subcontracting services to FSC. During the fiscal year ended September 30, 2018, we paid approximately \$0.2 million for these services, and we owed approximately \$52,000 to Providence as of September 30, 2018, as reflected in accounts payable. We did not incur any expenses or have any amounts outstanding to Providence during the fiscal year ended September 30, 2017.

Prior to its acquisition by Construction Partners, Inc., FSC advanced funds to an entity owned by Fred J. Smith, Jr., the father of F. Julius Smith, III, our Senior Vice President, in connection with a land development project. The obligations of the borrower entity to repay the advances are guaranteed by a separate entity owned by Fred J. Smith, Jr. and secured by 140,389 shares of the Company’s Class B common stock that are owned by the guarantor entity. Amounts outstanding under the advances do not bear interest and must be repaid in full no later than March 17, 2021. During each of the fiscal years ended September 30, 2017 and 2018, the amount outstanding under the advances was \$773,770.

For periodic corporate events, we charter a boat from Deep South Adventures, LLC, an entity owned by John L. Harper, our Senior Vice President. During the fiscal years ended September 30, 2017 and 2018, we paid Deep South Adventures, LLC approximately \$0.3 million and \$33,000, respectively, for these charter services.

WCC leases office space for its Dothan, Alabama office from H&K, Ltd., an entity partly owned by John L. Harper, our Senior Vice President, for which Mr. Harper also serves as general partner. The office space is leased through January 1, 2020. Under the lease agreement, WCC pays a fixed minimum rent of \$7,000 per month. During each of the fiscal years ended September 30, 2017 and 2018, WCC paid H&K, Ltd. \$84,000 pursuant to the terms of the lease agreement.

In September 2018, WCC purchased a building for its Montgomery, Alabama office from H&A Properties LLC, an entity owned by John L. Harper and M. Brett Armstrong, two of our Senior Vice Presidents, for \$487,500. Prior to the purchase, WCC leased space in the building from H&A Properties LLC. Under the lease agreement, WCC paid a fixed minimum rent of \$5,500 per month. During the fiscal years ended September 30, 2017 and 2018, WCC paid total rent of \$66,000 and \$60,500, respectively, to H&A Properties LLC pursuant to the terms of the lease agreement. The payments during the 2018 fiscal year represent rent for the eleven months of the fiscal year prior to the date on which WCC purchased the building.

In November 2017, WCC hired Brandi Harper, the wife of John L. Harper, our Senior Vice President, as General Counsel. From her hire date through September 30, 2018, WCC paid Brandi Harper \$206,346 in connection with her employment with WCC. Prior to her hire date, Harper Law Firm, LLC, a law firm owned by Brandi Harper, provided legal services to WCC. During the fiscal years ended September 30, 2017 and 2018, WCC paid Harper Law Firm, LLC approximately \$268,000 and \$58,000, respectively, as compensation for this legal work.

Brandon Owens, the son of Charles E. Owens, our President and Chief Executive Officer, serves as the Vice President of Operations of WCC. During the fiscal years ended September 30, 2017 and 2018, WCC paid Brandon Owens \$337,538 and \$352,500, respectively, in connection with his employment with WCC.

J. Gregory (Greer) Walker, the son of John A. Walker, our Senior Vice President, serves as a Chief Estimator and Project Manager of WCC. During the fiscal years ended September 30, 2017 and 2018, WCC paid Greer Walker \$121,940 and \$125,852, respectively, in connection with his employment with WCC.

Since June 1, 2014, CPHI has been a party to an access agreement with Island Pond Corporate Services, LLC (“Island Pond”) regarding certain property owned by affiliates of Ned N. Fleming, III, the Executive Chairman of our Board and Managing Partner of SunTx. Pursuant to the agreement, Island Pond has granted CPHI the non-exclusive right to use certain land located in Baker County, Georgia for the purpose of business development. CPHI paid Island Pond \$320,000 during each of the fiscal years ended September 30, 2017 and 2018, pursuant to the terms of the agreement.

Nelson Fleming, the son of Ned N. Fleming, III, the Executive Chairman of our Board and Managing Partner of SunTx, serves as our Director of Acquisition and Strategy Development. During the fiscal years ended September 30, 2017 and 2018, we paid Nelson Fleming \$95,750 and \$413,750, respectively, in connection with his employment. In addition, on February 23, 2018, Nelson Fleming was granted 35,280 restricted shares of our Class B common stock, all of which have vested. The value of these shares of restricted stock on the grant date was approximately \$274,478, or \$7.78 per share. The foregoing information gives effect to the Reclassification.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and officers and persons who beneficially own more than 10% of any class of our equity securities to file with the SEC reports of ownership and changes in ownership of the Company's common stock held by them. Copies of these reports must also be provided to the Company. Based on our review of these reports, we believe that, during the fiscal year ended September 30, 2018, all such reports that were required to be filed were filed on a timely basis.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board is currently composed of three directors, two of whom satisfy the heightened independence requirements specified in SEC rules. All members of the Audit Committee are financially literate, as that qualification has been interpreted by the Company's Board in its business judgment, and at least one member of the Audit Committee qualifies as an "audit committee financial expert," as that term is defined by the SEC. The Audit Committee operates under a written charter, which became effective on April 22, 2018.

The Audit Committee hereby submits the following report:

- The Audit Committee has reviewed and discussed with management the Company's audited consolidated financial statements as of, and for the fiscal year ended, September 30, 2018.
- The Audit Committee has discussed with the Company's independent registered public accountants, RSM, the matters required to be discussed by Public Company Accounting Oversight Board ("PCAOB") Auditing Standard No. 1301, Communications with Audit Committees (as amended), as well as all other matters required to be discussed with the independent auditors by applicable PCAOB standards.
- The Audit Committee has received and reviewed the written disclosures and the letter from RSM required by applicable rules of the PCAOB regarding RSM's communications with the Audit Committee concerning independence, and has discussed with RSM their independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2018 for filing with the SEC.

Audit Committee:

Mark R. Matteson, *Chairperson*

Michael H. McKay

Stefan L. Shaffer

PROPOSAL 1
ELECTION OF CLASS I DIRECTORS

Upon the recommendation of the Nominating and Corporate Governance Committee, the Board has nominated the following individuals for election as Class I directors of the Company to serve for a three-year term expiring at the 2022 annual meeting of stockholders:

Charles E. Owens

Ned N. Fleming, III

Unless a stockholder instructs otherwise, shares represented by properly submitted proxies will be voted “**FOR**” the election of the director nominees listed above. The Board anticipates that the nominees listed above will be able to serve, but if any nominee should be unable or unwilling to serve, proxies will be voted for a substitute selected by the Board.

The Board unanimously recommends that the stockholders vote “FOR” each of the nominees named above.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit Committee has selected RSM US LLP (“RSM”) as the Company’s independent registered public accounting firm for the fiscal year ending September 30, 2019. Stockholder ratification of the appointment is not required under Delaware law, but the Board has decided to ascertain the position of the Company’s stockholders on the appointment. The Audit Committee and the Board believe that the continued retention of RSM as the Company’s independent registered public accountants is in the best interest of the Company and its stockholders. If the appointment of RSM is not ratified, the Audit Committee will reconsider its appointment of RSM. The affirmative vote of a majority of the votes cast by the stockholders present in person or by proxy at the Annual Meeting and entitled to vote is required for ratification.

General

RSM has audited our financial statements for the fiscal year ended September 30, 2018 and has served as our independent registered public accounting firm since June 2017. It is expected that a representative of RSM will be present at the Annual Meeting to respond to appropriate questions and will be given the opportunity to make a statement if he or she so desires.

Audit Committee Pre-Approval Policy

On April 22, 2018, our Board adopted a policy for the pre-approval of audit and non-audit services performed by the independent registered public accountants (the “Pre-Approval Policy”), pursuant to which the Audit Committee generally is required to pre-approve the audit and permissible non-audit services performed by the independent registered public accountants in order to assure that the provision of such services does not impair the accountants’ independence. The Audit Committee considers non-audit fees and services when assessing the accountants’ independence. Unless a type of service to be provided by the independent registered public accountants has received general pre-approval, the service will require specific pre-approval by the Audit Committee. Any amounts invoiced for services rendered that materially exceed preapproved cost levels will require specific approval by the Audit Committee prior to the payment of such invoice. On an annual basis, the Audit Committee may pre-approve specific services that are expected to be provided to the Company by the independent registered public accountants during the following twelve months. The most recent preapproval occurred in August 2018. The Audit Committee may delegate pre-approval authority to one or more of its members, who in turn must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Change in Accountants

In June 2017, we retained RSM as our independent registered public accounting firm and dismissed our prior independent registered public accounting firm, PBMares, LLP (“PBMares”). The decision to dismiss PBMares and appoint RSM was approved by our Board, effective as of June 19, 2017. Subsequent to the appointment of RSM, we engaged RSM to re-audit our consolidated financial statements as of and for the fiscal years ended September 30, 2015 and 2016, which had previously been audited by PBMares.

The reports of PBMares on our consolidated financial statements as of and for the fiscal years ended September 30, 2015 and 2016 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. During the two most recent fiscal years preceding our discharge of PBMares and the subsequent interim period through June 19, 2017, we had no “disagreements” (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions thereto) with PBMares on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of PBMares, would have caused PBMares to make reference in connection with its opinion to the subject matter of the disagreement during its audit of our consolidated financial statements for the fiscal years ended September 30, 2015 and 2016. During the two most recent fiscal years preceding our discharge of PBMares and the subsequent interim period through June 19, 2017, there were no “reportable events” (as defined in Item 304(a)(1)(v) of Regulation S-K and the related instructions thereto).

During the two fiscal years ended September 30, 2016 and through the period ended June 19, 2017, we did not consult with RSM with respect to the application of accounting principles to a specified transaction, either completed or proposed, the type of audit opinion that might be rendered on our financial statements, or any other matter that was the subject of a disagreement or a reportable event (each as defined above). Moreover, neither a written report nor oral advice was provided to the Company that RSM concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue.

We have previously provided PBMares with a copy of the foregoing disclosure and requested that PBMares furnish us with a letter addressed to the SEC stating whether or not PBMares agrees with the above statements and, if not, stating the respects in which it does not agree. A copy of the letter, dated January 26, 2018, furnished by PBMares in response to that request, was filed as Exhibit 16.1 to our Registration Statement on Form S-1 (File No. 333-224174), filed with the SEC on April 6, 2018.

Fees Paid to RSM

The following table presents fees for professional services rendered by RSM for the audit of the Company’s annual financial statements for the fiscal years ended September 30, 2018 and 2017, and fees billed for other services rendered by RSM during those periods, including out-of-pocket expenses.

	<u>2018</u>	<u>2017</u>
Audit Fees	\$ 1,942,249	\$ 1,075,266
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0
TOTAL	\$ 1,942,249	\$ 1,075,266

Audit Fees. This category includes fees for professional services related to the audit of the Company’s financial statements and review of financial statements included in the Company’s Quarterly Reports on Form 10-Q, as well as services that are normally provided by RSM in connection with statutory and regulatory filings. Specifically, the amounts in the table above represent fees and expenses related to (i) the audit of the Company’s annual financial statements for the fiscal years ended September 30, 2018 and 2017, respectively, (ii) review of the Company’s interim financial statements and related disclosures included in periodic reports filed with the SEC, (iii) work performed in connection with the Company’s registration statements filed during the 2018 fiscal year, and (iv) audit services related to subsidiary-level financial data of our operating companies for submission to, and for purposes of qualifying our operating companies to perform work with, various state Departments of Transportation.

Audit-Related Fees. This category includes fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not included in Audit Fees. There were no such fees for the 2018 or 2017 fiscal years.

Tax Fees. This category includes fees billed for professional services related to tax compliance, tax advice and tax planning. RSM did not render any such services to the Company during the 2018 or 2017 fiscal years beyond its audit of our income tax accruals.

All Other Fees. This category includes fees billed to the Company for products and services provided by RSM that do not fall into one of the other three categories above. There were no such fees during the 2018 or 2017 fiscal years.

The Board unanimously recommends that the stockholders vote “FOR” Proposal 2.

OTHER MATTERS

As of the date of this Proxy Statement, the Board does not know of any business that will be presented for consideration at the Annual Meeting other than as specified herein and in the Notice of Annual Meeting of Stockholders, but if other matters are presented, it is the intention of the persons designated as proxies to vote in accordance with their judgment on such matters.

DEADLINE FOR STOCKHOLDER PROPOSALS

In order for a proposal by a stockholder of the Company to be eligible to be included in the proxy statement and form of proxy for the 2020 annual meeting of stockholders pursuant to the proposal process prescribed by SEC Rule 14a-8, the proposal must be received by the Secretary of the Company at Construction Partners, Inc., 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303, on or before September 24, 2019.

If a stockholder proposal is submitted outside the proposal process mandated by SEC Rule 14a-8, and is submitted instead under the advance notice provision of the Company's amended and restated by-laws, the proposal must be received by the Secretary of the Company at 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303 not earlier than November 9, 2019 or later than December 9, 2019, together with the necessary supporting documentation required under that by-law provision.

ANNUAL REPORT ON FORM 10-K

You may receive a copy of the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2018 without charge by sending a written request to Construction Partners, Inc., 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303, Attention: Secretary.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year 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: 001-38479

CONSTRUCTION PARTNERS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

26-0758017
(I.R.S. Employer Identification Number)

290 Healthwest Drive, Suite 2
Dothan, Alabama 36303
(Address of Principal Executive Offices) (ZIP Code)

(334) 673-9763
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Class A Common Stock, par value \$0.001 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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 Act). Yes No

The registrant completed its initial public offering subsequent to March 31, 2018, the last business day of the registrant's most recently completed second fiscal quarter. As of May 8, 2018, the date of the closing of the registrant's initial public offering, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$135,000,000, based on the actual offering price and number of shares sold in the offering.

As of December 10, 2018, the registrant had 11,950,000 shares of Class A common stock, \$0.001 par value per share, and 39,464,619 shares of Class B common stock, \$0.001 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the registrant's fiscal year ended September 30, 2018 in connection with the registrant's 2019 annual meeting of stockholders are incorporated by reference into Part III of this report.

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Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements that involve risks and uncertainties, such as statements related to future events, business strategy, future performance, future operations, backlog, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek,” “anticipate,” “plan,” “continue,” “estimate,” “expect,” “may,” “will,” “project,” “predict,” “potential,” “targeting,” “intend,” “could,” “might,” “should,” “believe” and similar expressions or their negative. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on management’s belief, based on currently available information, as to the outcome and timing of future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed in such forward-looking statements. When evaluating forward-looking statements, you should consider the risk factors and other cautionary statements described below under the heading “Risk Factors.” We believe that the expectations reflected in the forward-looking statements contained in this report are reasonable, but no assurance can be given that these expectations will prove to be correct.

Important factors that could cause actual results or events to differ materially from those expressed in forward-looking statements include, but are not limited to:

- declines in public infrastructure construction and reductions in government funding, including the funding by transportation authorities and other state and local agencies;
- risks related to our operating strategy;
- competition for projects in our local markets;
- risks associated with our capital-intensive business;
- government requirements and initiatives, including those related to funding for public or infrastructure construction, land usage and environmental, health and safety matters;
- unfavorable economic conditions and restrictive financing markets;
- our ability to successfully identify, manage and integrate acquisitions;
- our ability to obtain sufficient bonding capacity to undertake certain projects;
- our ability to accurately estimate the overall risks, requirements or costs when we bid on or negotiate contracts that are ultimately awarded to us;
- the cancellation of a significant number of contracts or our disqualification from bidding for new contracts;
- risks related to adverse weather conditions;
- our substantial indebtedness and the restrictions imposed on us by the terms thereof;
- our ability to maintain favorable relationships with third parties that supply us with equipment and essential supplies;
- our ability to retain key personnel and maintain satisfactory labor relations;
- property damage, results of litigation and other claims and insurance coverage issues;
- risks related to our information technology systems and infrastructure; and
- our ability to remediate the material weaknesses in internal control over financial reporting identified in preparing our consolidated financial statements included in this report and to subsequently maintain effective internal control over financial reporting.

These factors are not necessarily all of the important factors that could cause actual results or events to differ materially from those expressed in forward-looking statements. Other unknown or unpredictable factors could also cause actual results or events to differ materially from those expressed in the forward-looking statements. Our future results will depend upon various other risks and uncertainties, including those described under the heading “Risk Factors.” All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date hereof. We undertake no

obligation to update or revise any forward-looking statements after the date on which any such statement is made, whether as a result of new information, future events or otherwise, except as required by law.

PART I

Item 1. Business

Overview

Construction Partners, Inc. (the “Company”) is a leading infrastructure company that specializes in the construction and maintenance of roadways across Alabama, Florida, Georgia, North Carolina and South Carolina. Through its wholly owned subsidiaries, the Company provides a variety of products and services to both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports, and commercial and residential sites. Consistent with its vertical integration strategy, the Company's primary operations consist of (i) mining aggregates, such as sand and gravel, that are used as raw materials in the production of hot mix asphalt (“HMA”), (ii) manufacturing and distributing HMA for use by the Company and third parties in connection with construction projects, and (iii) site development, installing utility and drainage systems and paving.

The Company was formed as a Delaware corporation in 2007 as a holding company for its wholly owned subsidiary, Construction Partners Holdings, Inc., to facilitate an acquisition growth strategy in the HMA paving and construction industry.

As used in this report, the terms “Company,” “we” and “us” refer to Construction Partners, Inc. and its subsidiaries, except when the context requires that those terms mean only the parent company or a particular subsidiary.

2018 Fiscal Year Developments

Reclassification of Common Stock. On April 23, 2018, the Company amended and restated its certificate of incorporation to effectuate a dual class common stock structure consisting of Class A common stock and Class B common stock (the “Reclassification”). As a result of the Reclassification, each share of common stock, par value \$0.001 per share, issued immediately prior thereto was converted into 25.2 shares of Class B common stock, and Class A common stock was initially authorized for issuance. Following the Reclassification, the Company’s amended and restated certificate of incorporation authorized 400,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock.

Initial Public Offering. On May 8, 2018, the Company completed an initial public offering of 11,250,000 shares of its Class A common stock for a price of \$12.00 per share. Of these shares, 9,000,000 were sold by the Company, for which the Company received \$100.4 million in proceeds, after deducting underwriting discounts and commissions of \$7.6 million, and prior to additional total offering expenses of \$6.3 million. The remaining 2,250,000 shares were sold by the holders of Class B common stock, which shares upon sale automatically converted on a one-to-one basis into 2,250,000 shares of Class A common stock. The Company did not receive any proceeds from the sale of shares by the holders of Class B common stock. On May 24, 2018, the underwriters of the initial public offering partially exercised their over-allotment option to purchase an additional 700,000 shares of Class A common stock at a price of \$12.00 per share, less the underwriting discount and commissions. Of these shares, 350,000 were sold by the Company, for which the Company received \$3.9 million in proceeds, after deducting underwriting discounts and commissions of \$0.3 million. The remaining 350,000 shares were sold by the holders of Class B common stock, which shares upon sale automatically converted on a one-to-one basis into 350,000 shares of Class A common stock. The Company did not receive any proceeds from the sale of shares by the holders of Class B common stock.

Acquisition of The Scruggs Company. On May 15, 2018, the Company acquired all of the outstanding common stock of The Scruggs Company, a privately-owned infrastructure and road construction company headquartered in Hahira, Georgia, that operates three HMA plants, three aggregate mines and one industrial plant in Georgia. The purchase price of \$51.3 million was funded by \$29.3 million of cash on hand and \$22.0 million borrowed under an existing credit facility.

Settlement Agreements. On April 19, 2018, certain of the Company’s subsidiaries entered into settlement agreements with a third party, pursuant to which they will receive aggregate net payments of approximately \$15.7 million, payable in four equal installments between January 2019 and July 2020, in exchange for releasing and waiving all current and future claims against the third party relating to compensation to the Company for a business interruption event that (i) occurred more than five years ago, (ii) did not directly relate to the Company’s business and (iii) has not, and is not expected to, recur (the “Settlement”). The Company recorded a pre-tax gain of \$14.8 million during the fiscal year ended September 30, 2018 related to the Settlement.

Our Industry

We operate in the large and growing highway and road construction industry and specifically within the asphalt paving materials and services segment. Asphalt paving mix is the most common roadway material used today due to its cost effectiveness, durability and reusability, and minimized traffic disruption during paving, as compared to concrete. Recent growth in our industry has been driven by

federal, state and local Department of Transportation (“DOT”) budgets, which annually earmark amounts for transportation and infrastructure spending. The federal Fixing America’s Surface Transportation Act (the “FAST Act”), which was signed into law in 2015, provides long-term funding for surface transportation infrastructure planning and investment. Among other things, the FAST Act authorized \$305 billion in federal expenditures over fiscal years 2016 through 2020 for highway, motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, and research, technology, and statistics programs. In addition to the FAST Act, certain states within our markets have in recent years approved legislation that will increase funding of transportation construction for local road, bridge and transit projects. The non-discretionary nature of highway and road construction services and materials supports stable and consistent industry growth.

Projects and Customers

We provide construction products and services to both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports, and commercial and residential sites in the southeastern United States. We provide a wide range of large sitework construction, including site development, paving, and utility and drainage systems construction, and supply the HMA required for the projects. Our projects consist of both new construction and maintenance services. Publicly and privately funded projects accounted for approximately 67% and 33% of our fiscal 2018 construction contract revenues, respectively. Our public customers include federal agencies, state DOTs and local municipalities. Our private clients include commercial and residential developers and local businesses.

Our largest customers are state DOTs. For the fiscal year ended September 30, 2018, the Alabama DOT and the North Carolina DOT accounted for 15.1% and 13.3% of our revenues, respectively. Other than these customers, no other customer accounted for more than 10% of our revenues for such periods, and projects performed for all DOTs accounted for 42.9% of our revenues. Our 25 largest projects accounted for 30.2% of our revenues for the fiscal year ended September 30, 2018.

Types of Contracts

Our public customer contracts are primarily fixed unit price contracts. Pricing on a fixed unit price contract is typically based on approved quantities. Our private customer contracts are primarily fixed total price contracts, also known as lump sum contracts, which require that the total amount of work be performed for a single price. We also occasionally enter into design build contracts, which generally are performed under fixed total price contracts. For the majority of our customer contracts, upon completion and final acceptance of the services that we were contracted to perform, we receive our final payment upon completion of the necessary contract closing documents, and our obligations to the owner are complete at that point. For some contracts, we are required to furnish a warranty on our construction. These warranties, when required, are usually one year in length, but can extend up to three years according to the owners’ specifications. Historically, warranty claims have not been material to our business.

Contract Management

We identify potential contracts through a variety of sources, including: (i) subscriber services that consolidate and alert us to contracts open for bidding; (ii) posted solicitations by federal, state and local governmental entities through agency websites, disclosure of long-term infrastructure plans or advertising and other general solicitations; (iii) our business development efforts; and (iv) communications with other participants in our industry. We consider several factors that can create variability in contract performance and our financial results compared to our bid assumptions and methodologies on a contract. As a result, after determining the potential contracts that are available, we decide which contracts to pursue based on a non-exclusive list of factors, which include relevant skills required by the contract, the contract size and duration, availability of our personnel and equipment, size and makeup of our current contract backlog, our competitive advantages and disadvantages, our prior experience, the contracting agency or customer, the source of contract funding, the geographic location, the likely competition, the construction risks, the gross margin opportunities, the penalties or incentives and the type of contract.

To ensure the completeness and accuracy of our original bid analysis, the bid preparation for potential projects typically involves three phases.

- *Phase One:* We review the plans and specifications of the project so that we can identify (i) the various types of work involved and related estimated materials, (ii) the contract duration and schedule, and (iii) any unique or risky aspects of the project.
- *Phase Two:* We estimate the cost and availability of labor, materials and equipment, subcontractors and the project team required to complete the contract in accordance with the plans, specifications and construction schedule. Substantially all of our estimates are made on a per-unit basis for each bid item, with the typical contract containing 50 to 200 bid items.
- *Phase Three:* Management conducts a detailed review of the estimate. This review includes an analysis of assumptions regarding (i) cost, approach, means and methods of completing the project, (ii) staffing and productivity and (iii) risk. After concluding this detailed review of the cost estimate, management determines the appropriate profit margin to calculate the total bid amount. This profit amount varies according to management’s perception of the degree of difficulty

of the contract, the existing competitive climate, and the size and makeup of our contract backlog. Throughout this process, we work closely with our project managers so that all issues concerning a contract, including any risks, can be better understood and addressed as appropriate.

To ensure subcontracting costs used in submitting bids for construction contracts do not change, we obtain firm quotations from our subcontractors before submitting a bid. Also, to mitigate the risk of material price changes, we obtain “not to exceed” quotations from our suppliers, which, for projects of longer duration, usually contain price escalator provisions. These quotations typically include quantity guarantees that are tied to our prime contract. We have no obligation for materials or subcontract services beyond those required to complete the respective contracts that we are awarded for which quotations have been provided.

After a contract has been awarded and during the construction phase, we monitor our progress by comparing actual costs incurred and quantities completed to date with budgeted amounts and the project schedule. Monthly, we review our estimate of total forecasted revenue, cost and expected profit for each contract.

During the normal course of some projects, we or our customer may initiate modifications or changes to the original contract to reflect, among other things, changes in quantities, specifications or design, method or manner of performance, facilities, materials, site conditions and period for completion of the work.

Generally, the scope and price of these modifications are documented in a “change order” to the original contract and reviewed, approved and paid for in accordance with the normal change order provisions of the contract. Occasionally, we are asked to perform extra or change order work as directed by the customer even if the customer has not agreed in advance on the scope or price of the work to be performed. This process may result in disputes over whether the work performed is beyond the scope of the work included in the original contract plans and specifications or, even if the customer agrees that the work performed qualifies as extra work, the price that the customer is willing to pay for the extra work. These disputes may not be settled to our satisfaction. Even when the customer agrees to pay for the extra work, we may be required to fund the cost of such work for an extended period of time until the change order is approved and funded by the customer. In addition, any delay caused by the extra work may adversely impact the timely scheduling of other work on the contract (or on other contracts) and our ability to meet contract milestone dates. Historically, we have been successful at managing the impacts caused by change orders, and change orders have not had a material adverse effect on our business.

Most of our contracts with governmental agencies provide for termination at the convenience of the customer, with requirements to pay us for work performed through the date of termination. The termination of a government contract for the convenience of the customer is an extremely rare occurrence. Many of our contracts contain provisions that require us to pay liquidated damages if specified completion schedule requirements are not met. Historically, we have not been materially adversely affected by liquidated damages provisions.

We act as prime contractor on most of our construction projects. As prime contractor, we are responsible for the performance of the entire contract, including subcontract work. To manage the risk of non-performance by our subcontractors, we typically require the subcontractor to furnish a bond or other type of security to guarantee its performance and/or we retain payments in accordance with contract terms until their performance is complete. Disadvantaged business enterprise regulations require us to use our good faith efforts to subcontract a specified portion of contract work done for governmental agencies to certain types of disadvantaged contractors or suppliers.

Contract Backlog

At September 30, 2018, our contract backlog was \$594.4 million, compared to \$549.9 million at September 30, 2017. Contract backlog is a financial measure that generally reflects the dollar value of work that the Company expects to perform in the future. Although contract backlog is not a term recognized under generally accepted accounting principles in the United States (“GAAP”), it is a common measure used in our industry. We generally include a construction project in our contract backlog at the time it is awarded and to the extent we believe funding is probable. Our backlog consists of uncompleted work on contracts in progress and contracts for which we have executed a contract but have not commenced the work. For uncompleted work on contracts in progress, we include (i) executed change orders, (ii) pending change orders for which we expect to receive confirmation in the ordinary course of business and (iii) claims that we have made against our customers for which we have determined we have a legal basis under existing contractual arrangements and as to which we consider collection to be probable. Backlog on uncompleted work on contracts in progress was \$528.4 million and \$457.6 million at September 30, 2018 and 2017, respectively.

Our backlog also includes low bid/no contract jobs, which consist of (i) public bid jobs for which we were the low bidder and no contract has been executed and (ii) private work jobs for which we have been notified we are the low bidder or have been given a notice to proceed, but no contract has been executed. Low bid/no contract backlog was \$66.0 million and \$92.3 million at September 30, 2018 and 2017, respectively. At September 30, 2018, we expect approximately 80% of our contract backlog will be completed during the next 12 months.

Certain customer contracts contain options that are exercisable at the discretion of our customer to award additional work to us, without requiring us to go through an additional competitive bidding process. In addition, some customer contracts also contain task orders that are signed under master contracts pursuant to which we perform work only when the customer awards specific task orders to us. Awarded contracts that include unexercised contract options and unissued task orders are included in contract backlog to the extent such options are exercised or the issuance of such task orders is probable.

Substantially all of the contracts in our contract backlog, as well as unexercised contract options and unissued task orders, may be canceled or modified at the election of the customer. Historically, we have not experienced material amounts of contract cancellations or modifications. Many projects are added to our contract backlog and completed within the same fiscal year and therefore may not be reflected in our beginning or year-end contract backlog. Contract backlog does not include external sales of HMA and aggregates.

Insurance and Bonding

We maintain general and excess liability, property, workers' compensation and medical insurance, all in amounts consistent with industry practice.

In the ordinary course of our business, we are required to provide various types of surety bonds that provide an additional measure of security to the customer for our performance under certain public and private sector contracts. Our ability to obtain surety bonds depends on our capitalization, working capital, past performance, management expertise and external factors, including the capacity of the overall surety market. Surety companies consider such factors in light of the amount of our contract backlog that we have bonded and their underwriting standards. The capacity of the surety market is subject to market-based fluctuations driven primarily by the level of surety industry losses and the degree of surety market consolidation.

Competition

We compete against multiple competitors in all of the markets in which we operate. Competition is constrained in our industry because participants are limited by the distance that materials can be efficiently transported, resulting in a fragmented market with thousands of participants nationwide, many of which are local or regional operators. Our competitors typically range from small, family-owned companies focused on a single material, product or market to multinational corporations that offer a wide array of construction materials, products and paving and related services. We believe that we are well-positioned to compete effectively in the markets in which we operate.

Seasonality

The activity of our business fluctuates due to seasonality because our business is primarily conducted outdoors. Therefore, seasonal changes and other weather-related conditions, in particular extended snowy, rainy or cold weather in the winter, spring or fall and major weather events, such as hurricanes, tornadoes, tropical storms and heavy snows, can adversely affect our business and operations through a decline in both the use of our products and the demand for our services. In addition, construction materials production and shipment levels follow activity in the construction industry, which typically occurs in the spring, summer and fall. Warmer and drier weather during our third and fourth fiscal quarters typically result in higher activity and revenues during those quarters. Our first and second fiscal quarters typically have lower levels of activity due to adverse weather conditions. Our third fiscal quarter varies greatly with spring rains and wide temperature variations. A cool, wet spring increases drying time on projects, which can delay sales in the third fiscal quarter, while a warm, dry spring may facilitate earlier project commencement dates.

Sources and Availability of Raw Materials

We purchase raw materials, including, but not limited to, diesel fuel, liquid asphalt, other petroleum-based resources, sand and rock from numerous sources. With few exceptions, we do not enter into long-term agreements to purchase raw materials. We receive quotes from suppliers, most with a "not to exceed" price for the quoted product over the life of a project. In the HMA production process, components of a mix include virgin aggregates, such as sand and rock, liquid asphalt, and reclaimed asphalt pavement ("RAP"). We are able to internally supply RAP, a byproduct of asphalt resurfacing projects, to all of our HMA plants, and virgin aggregates in some of our market areas. The majority of our HMA plants sit in or near suppliers' rock quarries, thereby reducing the hauling cost of material to our plant. The price and availability of raw materials may vary from year to year due to market conditions and production capacities. We do not expect a lack of availability of any raw materials over the next twelve months.

Government and Environmental Regulations

Our operations are subject to stringent and complex federal, state and local laws and regulations governing the environmental, health and safety aspects of our operations or otherwise relating to environmental protection. These laws and regulations impose numerous obligations and limitations on our operations, including:

- requirements to obtain a permit or other approval before conducting regulated activities;

- restrictions on the types, quantities and concentration of materials that can be released into the environment;
- limitation or prohibition of activities on certain lands lying within wilderness, wetlands, and other protected areas;
- requirements to comply with specific health and safety criteria addressing worker protection; and
- the imposition of substantial liabilities for pollution resulting from our operations.

Such federal laws include (i) the Resource Conservation and Recovery Act, the Pollution Prevention Act and the Comprehensive Environmental Response, Compensation and Liability Act, governing solid and hazardous waste management, (ii) the Clean Air Act and the Clean Water Act, protecting air and water resources, and (iii) the Emergency Planning and Community Right-to-Know Act and Toxic Substances Control Act, governing the management of hazardous materials, in addition to analogous state laws. Numerous governmental authorities, such as the Environmental Protection Agency and corresponding state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them. Such enforcement actions often involve difficult and costly compliance measures or corrective actions. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil or criminal penalties, compensatory damages, the imposition of investigatory or remedial obligations, and the issuance of orders limiting or prohibiting some or all of our operations. In addition, we may experience delays in obtaining, or be unable to obtain, required permits, which may delay or interrupt our operations and limit our growth and revenue.

Certain environmental laws impose strict liability (i.e., no showing of “fault” is required) as well as joint and several liability for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us, regardless of whether such contamination resulted from the conduct of others or from the consequences of our own actions that complied with applicable laws at the time those actions were taken. In connection with certain acquisitions, we could assume, or be required to provide indemnification against, environmental liabilities that could expose us to material losses. Furthermore, the existence of contamination at properties we own, lease or operate could result in increased operational costs or restrictions on our ability to use those properties as intended, including for mining purposes.

In certain instances, citizen groups also have the ability to bring legal proceedings against us if we are not in compliance with environmental laws, or to challenge our ability to receive environmental permits that we need to operate. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations. Our insurance may not cover all environmental risks and costs or may not provide sufficient coverage if an environmental claim is made against us. Moreover, public interest in the protection of the environment has increased dramatically in recent years. The trend of more expansive and stringent environmental legislation and regulations applied to the construction industry could continue, resulting in increased costs of doing business and consequently affecting profitability.

We have incurred, and may in the future incur, significant capital and operating expenditures to comply with such laws and regulations. To the extent laws are enacted or other governmental action is taken that restricts our operations or imposes more stringent and costly operating, waste handling, disposal and cleanup requirements, our business, prospects, financial condition or results of operations could be materially adversely affected.

We regularly monitor and review our operations, procedures, and policies for compliance with our operating permits and related laws and regulations. We believe that our operations and facilities, whether owned or leased, are in substantial compliance with applicable environmental laws and regulations and that any existing non-compliance is not likely to have a material adverse effect on our operations or financial condition.

Industrial operations, including equipment maintenance and storage, asphalt manufacturing and processing, underground storage tank usage, and other storage and use of hazardous materials and petroleum products, have been and/or are conducted at our facilities for, in some cases, more than 50 years. While we have conducted our operations in substantial compliance with applicable environmental laws, we have, from time to time, identified contamination associated with these activities at certain of our facilities. We have incurred costs for the investigation and remediation of hazardous substances and petroleum products identified at several facilities, and investigation and remediation activities are ongoing at others. We may also become subject to similar liabilities in connection with prior and future acquisitions. We do not believe that liabilities associated with known or potential contamination at any of our facilities will have a material adverse effect on our operations or financial condition.

Employees

As of September 30, 2018, we employed 572 salaried employees and 1,582 hourly employees. The total number of hourly personnel is subject to the volume of projects in progress and fluctuates on a seasonal basis. During fiscal year 2018, the number of hourly employees ranged from 1,323 to 1,595 employees and averaged 1,458 employees. We are not subject to any collective bargaining agreements with respect to any of our employees. We believe that we have strong relationships with our employees.

Our business is dependent upon a readily available supply of management, supervisory and field personnel. Attracting, training and retaining key personnel has been and will remain critical to our success. Through the use of our management information systems, on-the-job training, and educational seminars, employees are trained to understand the importance of project execution. We place additional focus on training related to estimating, project management and project cost control. Our crews typically specialize in a specific phase of construction, such as grading or paving, with each crew member assigned to a specific task in order to maximize daily production. A core tenet of our organizational philosophy is to promote from within and offer advancement opportunities at all levels of employment, which helps us retain talented employees. Moreover, we proactively recruit additional talent in both conventional and creative manners to fill open positions when promoting internally is not an option. Like others in our industry, we experience some recurring employee turnover; however, we historically have been able to attract sufficient numbers of personnel to support the growth of our operations. Nonetheless, we continue to face competition for experienced workers in all of our markets.

We place a high emphasis on the safety of the public, our customers and our employees. To that end, we conduct extensive safety training programs, which have allowed us to maintain a high safety level at our worksites. All newly-hired employees undergo an initial safety orientation, and for certain types of projects and processes, we conduct specific hazard training programs. Our project foremen and superintendents conduct on-site safety meetings, and our full-time safety inspectors make random site safety inspections and perform assessments. In addition, certain operational employees are required to complete a safety course approved by the Occupational Safety and Health Administration (“OSHA”) or the Mine Safety and Health Administration (“MSHA”), as applicable. Moreover, we promote a culture of safety by encouraging employees to immediately correct and report all unsafe conditions.

Website Information

The Company maintains a website at www.constructionpartners.net. Certain corporate governance information, SEC filings and other information of potential interest to our stockholders are available free of charge through the “Investors” page of the Company’s website. These include, for example, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These documents are made available as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). Information on, or accessible through, the Company’s website is not part of or incorporated into this Annual Report on Form 10-K. We have included the website address only as an inactive textual reference and do not intend for it to be an active link to the website. We will provide paper copies of our periodic and current reports to stockholders free of charge upon written request to: Construction Partners, Inc., Attention: Corporate Secretary, 290 Healthwest Drive, Suite 2, Dothan, Alabama 36303.

Item 1A. Risk Factors.

An investment in our Class A common stock involves certain risks. You should carefully read and consider the following risks, as well as all of the other information contained in this Annual Report on Form 10-K, before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. As a result, the trading price of our Class A common stock could decline, and you could lose all or part of your investment. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently consider immaterial also may adversely affect us.

Risks Related to our Business

A significant slowdown or decline in economic conditions, particularly in the southeastern United States, could adversely impact our results of operations.

We currently operate in Alabama, Florida, Georgia, North Carolina and South Carolina. A significant slowdown or decline in economic conditions or uncertainty regarding the economic outlook in the United States generally, or in any of these states particularly, could result in reduced demand for infrastructure projects, which could materially adversely affect our financial condition, results of operations and liquidity. Demand for infrastructure projects depends on the overall condition of the national and local economies, the need for new or replacement infrastructure, the priorities placed on various projects funded by governmental entities and federal, state and local government spending levels. In particular, low tax revenues, credit rating downgrades, budget deficits and financing constraints, including timing and amount of federal funding and competing governmental priorities, could negatively impact the ability of government agencies to fund existing or new public infrastructure projects. For example, during the most recent recession, decreases in tax revenues reduced funding for infrastructure projects. In addition, any instability in the financial and credit markets could negatively impact our customers’ ability to pay us on a timely basis, or at all, for work on projects already in progress, could cause our customers to delay or cancel construction projects in our contract backlog and/or could create difficulties for customers to obtain adequate financing to fund new construction projects, including through the issuance of municipal bonds.

Our business is dependent on federal, state and local government spending for public infrastructure construction, and reductions in government funding could adversely affect our results of operations.

During the fiscal year ended September 30, 2018, we generated approximately 67% of our construction contract revenues from publicly funded construction projects at the federal, state and local levels. As a result, if publicly funded construction decreases due to reduced federal, state or local funding or otherwise, our financial condition, results of operations and liquidity could be materially adversely affected.

In January 2011, Congress repealed a 1998 transportation law that protected annual highway funding levels from amendments that could reduce such funding. This change subjected federal highway funding to annual appropriation reviews, which has increased the uncertainty of many state DOTs regarding the availability of highway project funds. This uncertainty could cause state DOTs to be reluctant to undertake large multiyear highway projects, which could, in turn, negatively affect our results of operations.

Federal highway bills provide spending authorizations that represent maximum amounts. Each year, Congress passes an appropriation act establishing the amount that can be used for particular programs. The annual funding level is generally tied to receipts of highway user taxes placed in the Highway Trust Fund (as defined in the FAST Act). Once Congress passes the annual appropriation, the federal government distributes funds to each state based on formulas or other procedures. States generally must spend these funds on the specific programs outlined in the federal legislation. In recent years, the Highway Trust Fund has faced insolvency as outlays have outpaced revenues. Annual shortfalls have been addressed primarily by short-term measures, including the transfer of funds from the General Fund (as defined in the FAST Act) into the Highway Trust Fund. As a result, we cannot be assured of the existence, timing or amount of future federal highway funding. Any reduction in federal highway funding, particularly in the amounts allocated to Alabama, Florida, Georgia, North Carolina and South Carolina, could have a material adverse effect on our results of operations.

Each state funds its infrastructure spending from specially allocated amounts collected from various taxes, typically fuel taxes and vehicle fees, as well as from voter-approved bond programs. Shortages in state tax revenues can reduce the amount spent on state infrastructure projects. Delays in state infrastructure spending can adversely affect our business. Many states have experienced state-level funding pressures caused by lower tax revenues and an inability to finance approved projects. Prior to the FAST Act, states took on a larger role in funding sustained infrastructure investment. During the past three years, many states have again taken on a significantly larger role in funding infrastructure investment, including initiating special-purpose taxes and increased fuel taxes.

While the current administration has announced an infrastructure stimulus plan, we cannot predict the impact, if any, that it or other proposed changes in law and regulations may have on our business.

We derive a significant portion of our revenues from state DOTs. The loss of our ability to competitively bid for certain projects or successfully contract with state DOTs could have a material adverse effect on our business.

Our largest customers are state DOTs. During the fiscal year ended September 30, 2018, the Alabama DOT and the North Carolina DOT accounted for 15.1% and 13.3% of our revenues, respectively, and projects performed for all DOTs accounted for 42.9% of revenues. We believe that we will continue to rely on state DOTs for a substantial portion of our revenues for the foreseeable future. The loss or reduction of our ability to competitively bid for certain projects or successfully contract with a state DOT could have a material adverse effect on our financial condition, results of operation and liquidity. See Note 3 - Significant Accounting Policies, Concentration of Risks, to the consolidated financial statements for the fiscal year ended September 30, 2018 included elsewhere in this Annual Report on Form 10-K, for information relating to concentrations of revenues by type of customer and for a description of our largest customers.

Government contracts generally are subject to a variety of governmental regulations, requirements and statutes, the violation or alleged violation of which could have a material adverse effect on our business.

During the fiscal year ended September 30, 2018, approximately 67% of our construction contract revenues were derived from contracts funded by federal, state and local governmental agencies. Our contracts with these governmental agencies are generally subject to specific procurement regulations, contract provisions and a variety of socioeconomic requirements relating to their formation, administration, performance and accounting and often include express or implied certifications of compliance. Further, government contracts typically provide for termination at the convenience of the customer with requirements to pay us for work performed through the date of termination. We may be subject to claims for civil or criminal fraud for actual or alleged violations of these various governmental regulations, requirements or statutes. In addition, we may also be subject to *qui tam* litigation brought by private individuals on behalf of the government under the Federal Civil False Claims Act, which could include claims for treble damages. Further, if we fail to comply with any of these various governmental regulations, requirements or statutes, or if we have a substantial number of accumulated OSHA, MSHA or other workplace safety violations, our existing government contracts could be terminated, and we could be suspended from government contracting or subcontracting, including federally funded projects at the state level. Even if we have not violated these various governmental regulations, requirements or statutes, allegations of violations or defending *qui tam* litigation could harm our reputation and require us to incur material costs to defend any such allegations or lawsuits. Should one or more of these events occur, it could have a material adverse effect on our financial condition, results of operations, cash flow and liquidity.

If we do not comply with certain federal or state laws, we could be suspended or debarred from government contracting, which could have a material adverse effect on our business.

Various statutes to which our operations are subject, including the Davis-Bacon Act (regulating wages and benefits), the Walsh-Healy Act (prescribing a minimum wage and regulating overtime and working conditions), Executive Order 11246 (establishing equal employment opportunity and affirmative action requirements) and the Drug-Free Workplace Act, provide for mandatory suspension and/or debarment of contractors in certain circumstances involving statutory violations. In addition, the Federal Acquisition Regulation and various state statutes provide for discretionary suspension and/or debarment in certain circumstances, including as a result of being convicted of, or being found civilly liable for, fraud or a criminal offense in connection with obtaining, attempting to obtain or performing a public contract or subcontract. The scope and duration of any suspension or debarment may vary depending upon the facts of a particular case and the statutory or regulatory grounds for debarment. Any suspension or debarment from government contracting could have a material adverse effect on our financial condition, results of operations or liquidity.

If we are unable to accurately estimate the overall risks, revenues or costs on our projects, we may incur contract losses or achieve lower than anticipated profits.

Pricing on a fixed unit price contract is based on approved quantities irrespective of our actual costs, and contracts with a fixed total price require that the work be performed for a single price irrespective of our actual costs. We only generate profits on fixed unit price and fixed total price contracts when our revenues exceed our actual costs, which requires us to accurately estimate our costs, to control actual costs and to avoid cost overruns. If our cost estimates are too low or if we do not perform the contract within our cost estimates, then cost overruns may cause us to incur a loss or cause the contract not to be as profitable as we expected. The costs incurred and profit realized, if any, on our contracts can vary, sometimes substantially, from our original projections due to a variety of factors, including, but not limited to:

- the failure to include materials or work in a bid, or the failure to estimate properly the quantities or costs needed to complete a fixed total price contract;
- delays caused by weather conditions or otherwise failing to meet scheduled acceptance dates;
- contract or project modifications or conditions creating unanticipated costs that are not covered by change orders;
- changes in the availability, proximity and costs of materials, including liquid asphalt cement, aggregates and other construction materials, as well as fuel and lubricants for our equipment;
- to the extent not covered by contractual cost escalators, variability and inability to predict the costs of purchasing diesel, liquid asphalt and cement;
- the availability and skill level of workers;
- the failure by our suppliers, subcontractors, designers, engineers or customers to perform their obligations;

- fraud, theft or other improper activities by our suppliers, subcontractors, designers, engineers, customers or our own personnel;
- mechanical problems with our machinery or equipment;
- citations issued by a government authority, including OSHA or MSHA citations;
- difficulties in obtaining required government permits or approvals;
- changes in applicable laws and regulations;
- uninsured claims or demands from third parties for alleged damages arising from the design, construction or use and operation of a project of which our work is part; and
- public infrastructure customers seeking to impose contractual risk-shifting provisions that result in increased risks to us.

These factors, as well as others, may cause us to incur losses, which could have a material adverse effect on our financial condition, results of operations or liquidity.

Because our industry is capital-intensive and we have significant fixed and semi-fixed costs, our profitability is sensitive to changes in volume.

The property, plants and equipment needed to produce our products and provide our services can be very expensive. We must spend a substantial amount of capital to purchase and maintain such property, plants and equipment. Although we believe our current cash balance, along with our projected internal cash flows and available financing sources, will provide sufficient cash to support our currently anticipated operating and capital needs, if we are unable to generate sufficient cash to purchase and maintain the property, plants and equipment necessary to operate our business, we may be required to reduce or delay planned capital expenditures or to incur additional indebtedness. In addition, due to the level of fixed and semi-fixed costs associated with our business, particularly at our HMA production facilities, volume decreases could have a material adverse effect on our financial condition, results of operations or liquidity.

The cancellation of a significant number of contracts, our disqualification from bidding for new contracts and the unpredictable timing of new contracts could have a material adverse effect on our business.

We could be prohibited from bidding on certain government contracts if we fail to maintain qualifications required by those entities. In addition, government contracts typically can be canceled at any time with us receiving payment only for the work completed. The cancellation of an unfinished contract, or our disqualification from the bidding process, could result in lost revenues and cause our equipment to be idled for a significant period of time until other comparable work becomes available. Additionally, the timing of project awards is unpredictable and outside of our control. Project awards, including expansions of existing projects, often involve complex and lengthy negotiations and competitive bidding processes.

The success of our business depends, in part, on our ability to execute on our acquisition strategy, to successfully integrate acquired businesses and to retain key employees of acquired businesses.

Over the past 17 years, we have acquired and integrated 16 complementary businesses, which have contributed to a significant portion of our growth. We continue to evaluate strategic acquisition opportunities that have the potential to support and strengthen our business, including acquisitions in states in the southeastern United States, as part of our ongoing growth strategy. We expect to evaluate, negotiate and enter into possible acquisition transactions on an ongoing basis in the future. We expect to regularly make non-binding acquisition proposals, and we may enter into non-binding, confidential letters of intent from time to time in the future. We cannot predict the timing or size of any future acquisitions. To successfully acquire a significant target, we may need to raise additional equity and/or indebtedness, which could increase our leverage level. There can be no assurance that we will enter into definitive agreements with respect to any contemplated transaction or that any contemplated transaction will be completed. The investigation of acquisition candidates and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments will require substantial management time and attention and substantial costs for accountants, attorneys and others. If we fail to complete any acquisition for any reason, including events beyond our control, the costs incurred up to that point for the proposed acquisition likely would not be recoverable.

Acquisitions typically require integration of the acquired company's estimation, project management, finance, information technology, risk management, purchasing and fleet management functions. We may be unable to successfully integrate an acquired business into our existing business, and an acquired business may not be as profitable as we had expected or at all. Our inability to successfully integrate new businesses in a timely and orderly manner could increase costs, reduce profits or generate losses. Factors affecting the successful integration of an acquired business include, but are not limited to, the following:

- we may become liable for certain liabilities of an acquired business, whether or not known to us, which could include, among others, tax liabilities, product liabilities, environmental liabilities and liabilities for employment practices;
- we may not be able to retain local managers and key employees who are important to the operations of an acquired business;
- substantial attention from our senior management and the management of an acquired business may be required, which could decrease the time that they have to service and attract customers;
- we may not effectively utilize new equipment that we acquire through acquisitions;
- the complete integration of an acquired company depends, to a certain extent, on the full implementation of our financial and management information systems, business practices and policies; and
- we may actively pursue a number of opportunities simultaneously and we may encounter unforeseen expenses, complications and delays, including difficulties in employing sufficient staff and maintaining operational and management oversight.

Acquisitions involve risks that the acquired business will not perform as expected and that business judgments concerning the value, strengths and weaknesses of the acquired business will prove incorrect. In addition, potential acquisition targets may be in states in which we do not currently operate, which could result in unforeseen operating difficulties and difficulties in coordinating geographically dispersed operations, personnel and facilities. In addition, if we enter into new geographic markets, we may be subject to additional and unfamiliar legal and regulatory requirements.

We cannot guarantee that we will achieve synergies and cost savings in connection with future acquisitions. Many of the businesses that we previously acquired, and businesses that we may acquire in the future, could have unaudited financial statements that are prepared by management and are not independently reviewed or audited. We cannot guarantee that such financial statements would not be materially different if such statements were independently reviewed or audited. We cannot guarantee that we will continue to acquire businesses at valuations consistent with our prior acquisitions or that we will complete future acquisitions at all. We cannot guarantee that there will be attractive acquisition opportunities at reasonable prices, that financing will be available or that we can successfully integrate acquired businesses into our existing operations. In addition, our results of operations from these acquisitions could, in the future, result in impairment charges for any of our intangible assets, including goodwill or other long-lived assets, particularly if economic conditions worsen unexpectedly. Our inability to effectively manage the integration of our completed and future acquisitions could prevent us from realizing expected rates of return on an acquired business and could have a material and adverse effect on our financial condition, results of operations or liquidity.

We may lose business to competitors that underbid us, and we may be unable to compete favorably in our highly competitive industry.

Most of our project awards are determined through a competitive bidding process in which price is the determining factor. Because of the high cost of transporting HMA, our ability to win a project award is often influenced by the distance between a work site and our HMA plants. We compete against multiple competitors in all of the markets in which we operate, most of which are local or regional operators. Some of our competitors are larger than we are, are vertically integrated and/or have similar or greater financial resources than we do. As a result, our competitors may be able to bid at lower prices than we can due to the location of their plants or as a result of their size or vertical-integration advantages. Government funding for public infrastructure projects is limited, thus contributing to competition for the limited number of public projects available. An increase in competition may result in a decrease in new project awards to us at acceptable profit margins. In addition, in the event of a downturn in private residential and commercial construction, the competition for available public infrastructure projects could intensify, which could materially and adversely impact our financial condition, results of operations or liquidity.

We may be unable to obtain or maintain sufficient bonding capacity, which could materially adversely affect our business.

A significant number of our contracts require performance and payment bonds. Our ability to obtain performance and payment bonds primarily depends upon our capitalization, working capital, past performance, management expertise, reputation and certain external factors, including the overall capacity of the surety market. If we are unable to renew or obtain a sufficient level of bonding capacity in the future, we may be precluded from being able to bid for certain projects or successfully contract with certain customers. In addition, even if we are able to successfully renew or obtain performance or payment bonds, we may be required to post letters of credit in connection with such bonds, which could negatively affect our liquidity and results of operations.

It is standard for sureties to issue or continue bonds on a project-by-project basis, and they can decline to do so at any time or require the posting of additional collateral as a condition thereto. Events that adversely affect the insurance and bonding markets generally may result in bonding becoming more difficult or costly to obtain in the future. If we were to experience an interruption or reduction in the availability of our bonding capacity as a result of these or any other reasons, or if bonding costs were to increase, we may be unable to compete for certain projects that require bonding, which would materially and adversely affect our financial condition, results of operations or liquidity.

Our business is seasonal and subject to adverse weather conditions, which can adversely impact our business.

Our construction operations occur outdoors. As a result, seasonal changes and adverse weather conditions can adversely affect our business operations through a decline in both the use and production of HMA, a decline in the demand for our construction services and alterations and delays in our construction schedules. Adverse weather conditions, such as extended snowy, rainy or cold weather in the winter, spring or fall can reduce demand for our products and reduce sales or render our contracting operations less efficient, resulting in under-utilization of crews and equipment and lower contract profitability. Major weather events, such as hurricanes, tornadoes, tropical storms and heavy snows, could also adversely affect our revenues and profitability.

We depend on information technology, and our systems and infrastructure face certain risks, including cybersecurity risks and data leakage risks.

We are dependent on information technology systems and infrastructure that could be damaged or interrupted by a variety of factors. Any significant breach, breakdown, destruction or interruption of these systems by employees, others with authorized access to our systems or unauthorized persons has the potential to negatively affect our operations. There is also a risk that we could experience a business interruption, theft of information or reputational damage as a result of a cyberattack, such as the infiltration of a data center, or data leakage of confidential information either internally or at our third-party providers. Although we have invested in the protection of our data and information technology to reduce these risks and periodically test the security of our information systems network, there can be no assurance that our efforts will prevent breakdowns or breaches in our systems that could have a material adverse effect on our financial condition, results of operations and liquidity.

Design-build contracts subject us to the risk of design errors and omissions.

Design-build contracts are used as a method of project delivery that provides the owner with a single point of responsibility for both design and construction. We generally subcontract design responsibility to architectural and engineering firms. However, in the event of a design error or omission that causes damages, there is a risk that the subcontractor and/or its errors and omissions insurance would not be able to absorb the full amount of the liability incurred. In this case, we may be responsible for the liability, resulting in a potentially material adverse effect on our financial position, results of operations, cash flows and liquidity.

Our continued success requires us to hire, train and retain qualified personnel and subcontractors in a competitive industry.

The success of our business depends upon our ability to attract, train and retain qualified, reliable personnel, including, but not limited to, our executive officers and key management personnel. Additionally, the successful operation of our business depends upon engineers, project management personnel, other employees and qualified subcontractors who possess the necessary and required experience and expertise and who will perform their respective services at a reasonable and competitive rate. Competition for these and other experienced personnel is intense, and it may be difficult to attract and retain qualified individuals with the requisite expertise and in the timeframe demanded by our clients. In certain geographic areas, for example, we may not be able to satisfy the demand for our services because of our inability to successfully hire, train and retain qualified personnel. Also, it could be difficult to replace personnel who hold government-granted eligibility that may be required to obtain certain government projects and/or who have significant government contract experience.

As some of our executives and other key personnel approach retirement age, we must provide for smooth transitions, which may require that we devote time and resources to identify and integrate new personnel into vacant leadership roles and other key

positions. If we are unable to attract and retain a sufficient number of skilled personnel or effectively implement appropriate succession plans, our ability to pursue projects and our strategic plan may be adversely affected, the costs of executing both our existing and future projects may increase and our financial performance may decline.

In addition, the cost of providing our services, including the extent to which we utilize our workforce, affects our profitability. For example, the uncertainty of contract award timing can present difficulties in matching our workforce size with our contracts. If an expected contract award is delayed or not received, we could incur costs resulting from excess staff or redundancy of facilities that could have a material adverse impact on our business, financial condition and results of operations.

We depend on third parties for equipment and supplies essential to operate our business.

We rely on third parties to sell or lease properties, plants and equipment to us and to provide us with supplies, including liquid asphalt cement, aggregates and other construction materials (such as stone, gravel and sand), necessary for our operations. We cannot assure you that our favorable working relationships with our suppliers will continue in the future. In addition, there have historically been periods of supply shortages in our industry.

The inability to purchase or lease the properties, plants or equipment that are necessary for our operations could severely impact our business. If we lose our supply contracts and receive insufficient supplies from third parties to meet our customers' needs, or if our suppliers experience price increases or disruptions to their business, such as labor disputes, supply shortages or distribution problems, our business, financial condition, results of operations, liquidity and cash flows could be materially and adversely affected.

We consume natural gas, electricity, diesel fuel, liquid asphalt and other petroleum-based resources that are subject to potential reliability issues, supply constraints and significant price fluctuations, which could have a material adverse effect on our financial condition, results of operations and liquidity.

In our production and distribution processes, we consume significant amounts of natural gas, electricity, diesel fuel, liquid asphalt and other petroleum-based resources. The availability and pricing of these resources are subject to market forces that are beyond our control, such as unavailability due to refinery turnarounds, higher prices charged for petroleum-based products, and other factors. Furthermore, we are vulnerable to any reliability issues experienced by our suppliers, which also are beyond our control. Our suppliers contract separately for the purchase of such resources, and our sources of supply could be interrupted if our suppliers are unable to obtain these materials due to higher demand or other factors that interrupt their availability. Additionally, increases in the costs of fuel and other petroleum-based products utilized in our operations, particularly increases following a bid based on lower costs for such products, could result in a lower profit, or a loss, on a contract. Variability in the supply and prices of these resources could have a material adverse effect on our financial condition, results of operations and liquidity.

Our contract backlog is subject to reductions in scope and cancellations and therefore could be an unreliable indicator of our future earnings.

At September 30, 2018, our contract backlog was \$594.4 million, compared to \$549.9 million at September 30, 2017. Our contract backlog generally consists of construction projects for which we either have an executed contract or commitment with a client or where we are the current low bid. Contract backlog does not include external sales of HMA and aggregates. Moreover, our contract backlog reflects our expected revenues from the contract, commitment or bid, which is often subject to revision over time. We cannot guarantee that the revenues projected in our contract backlog will be realized or, if realized, will be profitable. Projects reflected in our contract backlog may be affected by project cancellations, scope adjustments, time extensions or other changes. Such changes may adversely affect the revenues and profit we ultimately realize on these projects.

Failure of our subcontractors to perform as expected could have a negative impact on our results.

We rely on third-party subcontractors to perform some of the work on many of our contracts, but we are ultimately responsible for the successful completion of their work. Although we seek to require bonding or other forms of guarantees from our subcontractors, we are not always able to obtain such bonds or guarantees. In situations where we are unable to obtain a bond or guarantee, we may be responsible for the failures on the part of our subcontractors to perform as anticipated, resulting in a potentially adverse impact on our cash flows and liquidity. In addition, if the total costs of a project exceed our original estimates, we could experience reduced profits or a loss for that project, which could have an adverse impact on our financial position, results of operations, cash flows and liquidity.

The construction services industry is highly schedule-driven, and our failure to meet the schedule requirements of our contracts could adversely affect our reputation and/or expose us to financial liability.

In some instances, including in the case of many of our fixed unit price contracts, we guarantee that we will complete a project by a certain date. Any failure to meet contractual schedule or completion requirements set forth in our contracts could subject us to responsibility for costs resulting from the delay, generally in the form of contractually agreed-upon liquidated damages, liability for our customer's actual costs arising out of our delay, reduced profits or a loss on that project, damage to our reputation and a material adverse impact to our financial position, results of operations, cash flows and liquidity.

Increasing restrictions on securing aggregate reserves could have a negative impact on our future results of operations.

Increasingly strict regulations and the limited nature of properties containing useful aggregate reserves have made it increasingly challenging and costly to obtain aggregate reserves. Although we have been able to obtain adequate reserves to support our business in the past, our financial position, results of operations, cash flows and liquidity may be adversely affected by increasingly strict regulations.

Force majeure events, such as natural disasters and terrorist attacks, and unexpected equipment failures could negatively impact our business, which may affect our financial condition, results of operations or cash flows.

Force majeure events, such as terrorist attacks or natural disasters, have impacted, and could continue to negatively impact, the United States economy and the markets in which we operate. As an example, from time to time, we face unexpected severe weather conditions, evacuation of personnel and curtailment of services, increased labor and material costs or shortages, inability to deliver materials, equipment and personnel to work sites in accordance with contract schedules and loss of productivity. We seek to include language in our private client contracts that grants us certain relief in connection with force majeure events, and we attempt to mitigate the potential impact arising from force majeure events in both public and private client contracts. However, the extra costs incurred as a result of these events may not be reimbursed by our clients, and we remain obligated to perform our services after most extraordinary events, subject to any relief that may be available pursuant to a force majeure clause.

Additionally, our manufacturing processes are dependent upon critical pieces of equipment, such as our HMA plants. This equipment, on occasion, may be out of service as a result of unanticipated failures or damage. Any significant interruption in production capability may require us to make significant capital expenditures to remedy problems or damage and cause us to lose revenues due to lost production time.

These force majeure events may affect our operations or those of our customers or suppliers and could impact our revenues, production capability and ability to complete contracts in a timely manner.

A failure to obtain or maintain adequate insurance coverage could adversely affect our results of operations.

As part of our overall risk management strategy and pursuant to requirements to maintain specific coverage that are contained in our financing agreements and in a majority of our contracts, we have obtained and maintain insurance coverage.

Although we have been able to obtain reasonably priced insurance coverage to meet our requirements in the past, there is no assurance that we will be able to do so in the future. For example, catastrophic events can result in decreased coverage limits, more limited coverage, and increased premium costs or deductibles. If we are unable to obtain adequate insurance coverage, we may not be able to procure certain contracts, which could materially adversely affect our financial position, results of operations, cash flows or liquidity.

We could incur material costs and losses as a result of claims that our products do not meet regulatory requirements or contractual specifications.

We provide our customers with products designed to comply with building codes or other regulatory requirements, as well as any applicable contractual specifications, including, but not limited to, durability, compressive strength and weight-bearing capacity. If our products do not satisfy these requirements and specifications, material claims may arise against us, our reputation could be damaged and, if any such claims are for an uninsured, non-indemnified or product-related claim, resolution of such claim against us could have a material adverse effect on our financial condition, results of operations or liquidity.

Environmental, health and safety laws and regulations and any changes to, or liabilities arising under, such laws and regulations could have a material adverse effect on our financial condition, results of operations and liquidity.

Our operations are subject to stringent and complex federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection and public health and safety. These laws and regulations impose numerous obligations applicable to our operations, including: a requirement to obtain a permit or other approval before conducting regulated activities; restrictions on the types, quantities and concentration of materials that can be released into the environment; limitation or prohibition of activities on certain lands lying within wilderness, wetlands, and other protected areas; application of specific health and safety criteria addressing worker protection; and imposition of substantial liabilities for pollution resulting from our operations. Numerous government authorities, such as the U.S. Environmental Protection Agency (the “EPA”) and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them. Such enforcement actions often involve difficult and costly compliance measures or corrective actions. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil or criminal penalties, compensatory damages, the imposition of investigatory or remedial obligations, and the issuance of orders limiting or prohibiting some or all of our operations. In addition, we may experience delays in obtaining, or be unable to obtain, required permits, which may delay or interrupt our operations and limit our growth and revenue.

Certain environmental laws impose strict liability (i.e., no showing of “fault” is required) or joint and several liability for costs required to remediate and restore sites where hazardous substances, hydrocarbons or solid wastes have been stored or released. We may be required to remediate contaminated properties currently or formerly owned or operated by us or third-party facilities that received waste generated by our operations, regardless of whether such contamination resulted from the conduct of others or from the consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. In connection with certain acquisitions, we could assume, or be required to provide indemnification against, environmental liabilities that could expose us to material losses. Furthermore, the existence of contamination at properties we own, lease or operate could result in increased operational costs or restrictions on our ability to use those properties as intended, including for mining purposes.

In certain instances, citizen groups also have the ability to bring legal proceedings against us if we are not in compliance with environmental laws, or to challenge our ability to receive environmental permits that we need to operate. In addition, claims for damages to persons or property, including natural resources, may result from the environmental, health and safety impacts of our operations. Our insurance may not cover all environmental risks and costs or may not provide sufficient coverage if an environmental claim is made against us. Moreover, public interest in the protection of the environment has increased dramatically in recent years. The trend of more expansive and stringent environmental legislation and regulations applied to our industry could continue, resulting in increased costs of doing business and, consequently, affecting profitability.

The risks associated with climate change, as well as climate change legislation and regulations, could adversely affect our operations and financial condition.

The physical risks of climate change, such as more frequent or more extreme weather events, changes in temperature and precipitation patterns, changes to ground and surface water availability and other related phenomena, could affect some, or all, of our operations. Severe weather or other natural disasters could be destructive, which could result in increased costs, including supply chain costs.

In addition, a number of governmental bodies have finalized, proposed or are contemplating legislative and regulatory actions in response to growing concerns about climate change. In recent years, federal, state and local governments have taken steps to reduce emissions of greenhouse gases. The EPA has finalized a series of greenhouse gas monitoring, reporting and emissions control rules for certain large sources of greenhouse gases, and the U.S. Congress has, from time to time, considered adopting legislation to reduce greenhouse gas emissions. Nearly half of the states have already taken measures to reduce greenhouse gas emissions, primarily through the development of greenhouse gas emission inventories and/or regional greenhouse gas cap-and-trade programs. Whether or not the United States participates in international commitments to reduce greenhouse gas emissions at the federal level, many state and local officials have announced their commitment to upholding such commitments.

Although it is not possible at this time to predict how future legislation or regulations to address greenhouse gas emissions would impact our business, any such laws and regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations, could require us to incur costs to reduce greenhouse gas emissions associated with our operations. Because we emit greenhouse gases through the manufacture of HMA products and through the combustion of fossil fuels as part of our mining and road construction services, such laws and regulations could have a material adverse effect on our operating results and financial condition.

Our operations are subject to special hazards that may cause personal injury or property damage, subjecting us to liabilities and possible losses that may not be covered by insurance.

Operating hazards inherent in our business, some of which may be outside our control, can cause personal injury and loss of life, damage to or destruction of property, plant and equipment and environmental damage. We maintain insurance coverage in amounts and against risks that we believe are consistent with industry practice, but this insurance may be inadequate or unavailable to cover all losses or liabilities we may incur in our operations. Our insurance policies are subject to varying levels of deductibles. Losses up to our deductible amounts are accrued based upon our estimates of the ultimate liability for claims incurred and an estimate of claims incurred but not reported. However, liabilities subject to insurance are difficult to estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of unreported incidents and the effectiveness of our safety programs. If we were to experience insurance claims or costs above our estimates, we may be required to use working capital to satisfy these claims rather than using working capital to maintain or expand our operations.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations.

Construction Partners Holdings, Inc. (“Construction Partners Holdings”), our wholly owned subsidiary, is party to a credit agreement with Compass Bank, as agent, sole lead arranger and sole bookrunner (as amended, the “Compass Credit Agreement”). The Compass Credit Agreement provides for a \$72.0 million term loan (the “Compass Term Loan”) and a \$30.0 million revolving credit facility (the “Compass Revolving Credit Facility”). We guarantee the obligations under the Term Loan and the Revolving Credit Facility. A significant portion of our cash flow will be required to pay interest and principal on our outstanding indebtedness, and we may be unable to generate sufficient cash flow from operations, or have future borrowings available, to enable us to repay our indebtedness or to fund other liquidity needs. This level of indebtedness could have important consequences, including the following:

- we may be required to use a significant percentage of our cash flow from operations for debt service and the repayment of our indebtedness, and any such cash flow would not be available for other purposes;
- our ability to borrow money or issue equity to fund our working capital, capital expenditures, acquisitions and debt service requirements may be limited;
- our interest expense could increase if interest rates in general increase because a portion of our indebtedness bears interest at floating rates;
- our flexibility in planning for or reacting to changes in our business and future business opportunities may be limited;
- we may be more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- we may be more vulnerable to a downturn in our business or the economy; and
- our ability to exploit business opportunities may be limited.

Despite our substantial indebtedness, we and our subsidiaries may still be able to incur additional debt. This could reduce our ability to satisfy our current obligations and further exacerbate the risks to our financial condition described above.

At September 30, 2018, we had \$57.3 million outstanding under the Term Loan and \$5.0 million outstanding under the Revolving Credit Facility. In addition, we and our subsidiaries may be able to incur significant additional indebtedness in the future, and we may do so, among other reasons, to fund acquisitions as part of our growth strategy. Although the Compass Credit Agreement contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and we could incur substantial additional indebtedness in compliance with these restrictions.

The Compass Credit Agreement restricts our ability and the ability of our subsidiaries to engage in some business and financial transactions.

The Compass Credit Agreement contains a number of covenants that limit our ability and the ability of our subsidiaries to: incur additional indebtedness or guarantees; create liens on assets; change our or our subsidiaries' fiscal year; enter into sale and leaseback transactions; enter into certain restrictive agreements; engage in mergers or consolidations; participate in partnerships and joint ventures; sell assets; incur additional liens; pay dividends or distributions and make other restricted payments; make investments, loans or advances; repay or amend terms of subordinated indebtedness; make certain acquisitions; enter into certain operating leases; enter into certain hedge transactions; amend material contracts; and engage in certain transactions with affiliates.

The Compass Credit Agreement also requires us to maintain a fixed charge coverage ratio and a consolidated leverage ratio and contains certain customary representations and warranties, affirmative covenants and events of default (including, among others, an event of default upon a change of control). If an event of default occurs, the lenders under the Compass Credit Agreement will be entitled to take various actions, including the acceleration of amounts due thereunder and all actions permitted to be taken by a secured creditor. Our failure to comply with our obligations under the Compass Credit Agreement may result in an event of default under the Compass Credit Agreement. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

We may need to raise additional capital in the future for working capital, capital expenditures and/or acquisitions, and we may not be able to do so on favorable terms or at all, which would impair our ability to operate our business or achieve our growth objectives.

Our ongoing ability to generate cash is important for the funding of our continuing operations, making acquisitions and servicing our indebtedness. To the extent that existing cash balances and cash flow from operations, together with borrowing capacity under our Revolving Credit Facility, are insufficient to make investments or acquisitions or provide needed working capital, we may require additional financing from other sources. Our ability to obtain such additional financing in the future will depend in part upon prevailing capital market conditions, as well as conditions in our business and our operating results, and those factors may affect our efforts to arrange additional financing on terms that are acceptable to us. Furthermore, if global economic, political or other market conditions adversely affect the financial institutions that provide credit to us, it is possible that our ability to draw upon our Revolving Credit Facility may be impacted. If adequate funds are not available, or are not available on acceptable terms, we may not be able to make future investments, take advantage of acquisitions or other opportunities, or respond to competitive challenges, resulting in loss of market share, each of which could have a material adverse impact on our financial position, results of operations, cash flows and liquidity.

We may be unable to identify and contract with qualified Disadvantaged Business Enterprise contractors to perform as subcontractors.

Some of our contracts with governmental agencies contain minimum Disadvantaged Business Enterprise ("DBE") participation clauses, which require us to maintain a requisite level of DBE participation. If we fail to obtain or maintain such requisite level of DBE participation, we could be held responsible for breach of contract. Such breach may result in the placement of restrictions on our ability to bid on future projects as well as monetary damages. To the extent we are responsible for monetary damages, the total costs of the project could exceed our original estimates, we could experience reduced profits or a loss for that project and there could be a material adverse impact to our financial position, results of operations, cash flows or liquidity.

Failure to maintain safe work sites could result in significant losses, which could materially affect our business and reputation.

Because our employees and others are often in close proximity with mechanized equipment, moving vehicles, chemical substances and dangerous manufacturing processes, our construction and maintenance sites are potentially dangerous workplaces. Therefore, safety is a primary focus of our business and is critical to our reputation and performance. Many of our clients require that we meet certain safety criteria to be eligible to bid on contracts, and some of our contract fees or profits are subject to satisfying safety criteria. Unsafe work conditions also can increase employee turnover, which increases project costs and therefore our overall operating costs. If we fail to implement safety procedures or implement ineffective safety procedures, our employees could be injured, and we could be exposed to investigations and possible litigation. Our failure to maintain adequate safety standards through our safety programs could also result in reduced profitability or the loss of projects or clients, and could have a material adverse impact on our financial position, results of operations, cash flows or liquidity.

In connection with acquisitions, we have recorded goodwill that could become impaired and adversely affect our operating results. Assessing whether impairment has occurred requires us to make significant judgments and assumptions about the future, which are inherently subject to risks and uncertainties, and if actual events turn out to be materially less favorable than the judgments we make and the assumptions we use, we may be required to record impairment charges in the future.

At September 30, 2018 and September 30, 2017, we had \$32.9 million and \$30.6 million, respectively, of goodwill recorded on our Consolidated Balance Sheets. We assess goodwill for impairment annually or more often if required. Our assessments involve a number of estimates and assumptions that are inherently subjective and require significant judgment regarding highly uncertain matters that are subject to change. The use of different assumptions or estimates could materially affect the determination as to whether or not an impairment has occurred. In addition, if future events are less favorable than what we assumed or estimated in our impairment analysis, we may be required to record an impairment charge, which could have a material impact on our consolidated financial statements.

Our earnings are affected by the application of accounting standards and our critical accounting policies, which involve subjective judgments and estimates by our management. Our actual results could differ from the estimates and assumptions used to prepare our consolidated financial statements.

The accounting standards we use in preparing our financial statements are often complex and require that we make significant estimates and assumptions in interpreting and applying those standards. These estimates and assumptions affect the reported values of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. We make critical estimates and assumptions involving accounting matters, including our revenue recognition, contracts receivable including retainage, valuation of long-lived assets and goodwill, income taxes, accrued insurance costs and share-based payments and other equity transactions. These estimates and assumptions involve matters that are inherently uncertain and require us to make subjective and complex judgments. If we used different estimates and assumptions or used different ways to determine these estimates, our financial results could differ.

Our actual business and financial results could differ from our estimates of such results, which could have a material negative impact on our financial condition and reported results of operations. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.”

The percentage-of-completion method of accounting for contract revenues involves significant estimates that may result in material adjustments, which could result in a charge against our earnings.

We recognize contract revenues using the percentage-of-completion accounting method. Under this method, revenues are recognized as costs are incurred in an amount equal to cost plus the related expected profit based on the ratio of costs incurred to estimated final costs. Contract costs consist of direct costs on contracts, including labor, materials, amounts payable to subcontractors and those indirect costs related to contract performance, such as equipment costs, insurance and employee benefits. Contract cost is recorded as incurred, and revisions in contract revenues and cost estimates are reflected in the accounting period when known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract change orders, penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Estimated contract losses are recognized in full when determined. Total contract revenues and cost estimates are reviewed and revised at a minimum on a quarterly basis as the work progresses and as change orders are approved. Adjustments based upon the percentage-of-completion method are reflected in contract revenues in the period when these estimates are revised. To the extent that these adjustments result in an increase or a reduction in or an elimination of previously reported contract profit, we recognize a credit or a charge against current earnings, as applicable. Such credits or charges could be material and could cause our results to fluctuate materially from period to period.

Accounting for our contract-related revenues and costs, as well as other expenses, requires management to make a variety of significant estimates and assumptions. Although we believe we have the experience and processes to enable us to formulate appropriate assumptions and produce reasonably dependable estimates, these assumptions and estimates may change significantly in the future and could result in the reversal of previously recognized revenues and profit. Such changes could have a material adverse effect on our financial position and results of operations.

Risks Related to Ownership of Our Class A Common Stock

The dual class structure of our common stock has the effect of concentrating voting control with SunTx and its affiliates, which limits your ability to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. As of December 10, 2018, holders of our Class B common stock, including SunTx, its affiliates and certain other stockholders, together hold approximately 97.1% of the voting power of our outstanding common stock. Because of the ten-to-one voting ratio between our Class B common stock and our Class A common stock, the holders of our Class B common stock collectively control a majority of the combined voting power of our common stock and therefore control the outcome of all matters submitted to our stockholders. This concentrated control limits or precludes your ability to influence corporate matters for the foreseeable future.

Future transfers of shares of our Class B common stock generally will result in those shares converting into shares of our Class A common stock, subject to limited exceptions, such as certain transfers to permitted transferees. The conversion of shares of our Class B common stock into our Class A common stock will have the effect, over time, of increasing the relative voting power of each individual holder of shares of our Class B common stock who retain their shares in the long-term.

We have incurred, and expect to continue to incur, substantial costs as a result of being a public company, which may significantly affect our financial condition.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with our public company reporting requirements. We also incur costs associated with corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the Dodd-Frank Act of 2010 and rules implemented by the SEC. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly, particularly after we are no longer an "emerging growth company" under the JOBS Act. For example, as a result of becoming a publicly traded company, we are required to adopt policies regarding internal controls and disclosure controls and procedures, including the preparation of reports on internal control over financial reporting. We also expect these rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

After we are no longer an emerging growth company, we expect to incur significant additional expenses and devote substantial management effort toward ensuring compliance with those requirements applicable to companies that are not emerging growth companies, including Section 404 of the Sarbanes-Oxley Act ("Section 404").

For so long as we are an "emerging growth company," we will not be required to comply with certain disclosure requirements that are applicable to other public companies, and the reduced disclosure requirements applicable to emerging growth companies could make our Class A common stock less attractive to investors.

We are an "emerging growth company" (as defined in the Jumpstart Our Business Startups Act (the "JOBS Act")), and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict whether investors will find our Class A common stock less attractive because we rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock, and our Class A common stock price may be more volatile.

We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year during which our total revenues equals or exceeds \$1.07 billion, (ii) September 30, 2023, which is the last day of the fiscal year following the fifth anniversary of our initial public offering, (iii) the date on which we have, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt securities and (iv) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act.

We are subject to certain requirements of Section 404 beginning in fiscal year 2019. If we are unable to timely comply with such requirements or if the costs related to compliance are significant, our profitability, stock price, results of operations and financial condition could be materially adversely affected.

We are required to comply with certain provisions of Section 404, which requires that we document and test our internal control over financial reporting and issue management's assessment of our internal control over financial reporting beginning with the fiscal year ending September 30, 2019. Section 404 also requires that our independent registered public accounting firm opine on those internal controls upon becoming an accelerated filer, as defined in the SEC rules, or otherwise ceasing to qualify for an exemption from the requirement to provide auditors' attestation on internal controls afforded to emerging growth companies under the JOBS Act.

We believe that the out-of-pocket costs, the diversion of management's attention from running the day-to-day operations and operational changes caused by the need to comply with the requirements of Section 404 could be significant. If the time and costs associated with such compliance exceed our current expectations, our results of operations could be adversely affected.

We cannot be certain at this time that we will be able to successfully complete the procedures, certification and attestation requirements of Section 404 or that we or our auditors will not identify further material weaknesses in our internal control over financial reporting. If we fail to comply with such requirements, or if at any time after becoming a public company, we or our auditors identify and report any material weaknesses, the accuracy and timeliness of the filing of our annual and quarterly reports may be materially adversely affected and could cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our Class A common stock. In addition, a material weakness in the effectiveness of our internal control over financial reporting could result in an increased chance of fraud and the loss of customers, reduce our ability to obtain financing, subject us to investigations by the SEC or other regulatory authorities and require additional expenditures to comply with these requirements, each of which could have a material adverse effect on our business, results of operations and financial condition.

We have identified material weaknesses in our internal control over financial reporting, and if we are unable to achieve and maintain effective internal control over financial reporting, investors could lose confidence in our consolidated financial statements and our Company, which could have a material adverse effect on our business and our stock price.

In the course of preparing the financial statements for the fiscal years ended September 30, 2018 and 2017, our management determined that we have material weaknesses in our internal control over financial reporting, which relate to the design and operation of our information technology general controls and overall closing and financial reporting controls, including our accounting for significant and unusual transactions. We have concluded that these material weaknesses in our internal control over financial reporting are primarily due to the fact that we have historically operated as a private company with limited resources and had neither formally designed and implemented the necessary business processes and related internal controls nor employed personnel with the appropriate level of experience and technical expertise to oversee (i) our business processes and controls surrounding information technology general controls, (ii) our closing and financial reporting processes, or (iii) the accounting and financial reporting requirements related to significant and unusual transactions.

As a result of these material weaknesses, we have initiated and will continue to implement remediation measures including, but not limited to: (i) hiring additional accounting staff members to augment our current staff and to improve the effectiveness of our financial period close and reporting processes; (ii) engaging a third party to assist us in complying with the accounting and financial reporting requirements related to significant and unusual transactions; (iii) engaging a third party to assist us in identifying and implementing the business processes and controls surrounding information technology general controls; and (iv) engaging a third party to assist us with formalizing our business processes, accounting policies and internal control documentation, strengthening supervisory reviews by our management, and evaluating the effectiveness of our internal controls in accordance with the framework established by *Internal Control - Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission.

If we fail to fully remediate these material weaknesses or fail to maintain effective internal controls in the future, it could result in a material misstatement of our consolidated financial statements that would not be prevented or detected on a timely basis, which could cause investors to lose confidence in our financial information or cause the trading price of our Class A common stock to decline. Our independent registered public accounting firm has not assessed the effectiveness of our internal control over financial reporting and, under the JOBS Act, will not be required to provide an attestation report on the effectiveness of our internal control over financial reporting so long as we qualify as an emerging growth company, which may increase the risk that weaknesses or deficiencies in our internal control over financial reporting go undetected.

If the price of our Class A common stock fluctuates significantly, your investment could lose value.

Prior to our initial public offering in May 2018, there was no public market for our Class A common stock. Although our Class A common stock is listed on the Nasdaq Global Select Market, we cannot guarantee that an active public market will be maintained for our Class A common stock. If an active public market for our Class A common stock is not maintained, the trading price and liquidity of our Class A common stock will be materially and adversely affected. If there is a thin trading market or “float” for our Class A common stock, the market price for our Class A common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our Class A common stock is less liquid than the securities of companies with broader public ownership and, as a result, the trading prices of our Class A common stock may be more volatile. In addition, in the absence of an active public trading market, investors may be unable to liquidate their investment in our Company at the times or prices they desire. In addition, the stock market is subject to significant price and volume fluctuations, and the price of our Class A common stock could fluctuate widely in response to several factors, including: our quarterly or annual operating results; investment recommendations by securities analysts following our business or our industry; additions or departures of key personnel; changes in the business, earnings estimates or market perceptions of our competitors; our failure to achieve operating results consistent with securities analysts’ projections; changes in industry, general market or economic conditions; and announcements of legislative or regulatory change.

The stock market has experienced substantial price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our Class A common stock could fluctuate based upon factors that have little or nothing to do with our Company, and these fluctuations could materially reduce the price for our Class A common stock.

Future sales, or the perception of future sales, by us or our existing stockholders in the public market could cause the market price for our Class A common stock to decline.

The sale of shares of our Class A common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of shares of our Class A common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

We have outstanding a total of 11,950,000 shares of our Class A common stock and 39,464,619 shares of our Class B common stock that are convertible by the holders thereof at any time into an equal number of shares of our Class A common stock. Of the outstanding shares, the 11,950,000 shares sold in the initial public offering are freely tradable without restriction or further registration under the Securities Act of 1933, as amended (the “Securities Act”), except that certain shares held by our affiliates, as that term is defined under Rule 144 of the Securities Act (“Rule 144”), including certain of our directors, executive officers and other affiliates (including affiliates of SunTx) may be sold only in compliance with the provisions of Rule 144.

The 39,464,619 shares of our Class B common stock, representing 76.8% of our total outstanding shares of our common stock at December 10, 2018, are “restricted securities” within the meaning of Rule 144 and may be sold in the public market only if they are registered under the Securities Act or are sold pursuant to an exemption from registration such as Rule 144.

Pursuant to a registration rights agreement, SunTx and certain other stockholders have the right, subject to certain conditions, to require us to register the sale of their shares of common stock under the Securities Act. By exercising their registration rights and selling a large number of shares, these stockholders could cause the prevailing market price of our Class A common stock to decline. Shares covered by registration rights represented approximately 75.9% of our total outstanding common stock as of December 10, 2018. Registration of any of these outstanding shares of common stock would result in such shares becoming freely tradable without compliance with Rule 144 upon effectiveness of the registration statement.

If these stockholders exercise their registration rights, the market price of the shares of our Class A common stock could drop significantly if the holders of these shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of our Class A common stock or other securities.

In the future, we may also issue our securities in connection with offerings or acquisitions. The number of shares of our Class A common stock issued in connection with offerings or acquisitions could constitute a material portion of the then-outstanding shares of our Class A common stock. Any issuance of additional securities in connection with offerings or acquisitions would result in additional dilution to holders of our Class A common stock.

Affiliates of SunTx control us, and their interests may conflict with ours or yours in the future.

As of December 10, 2018, affiliates of SunTx beneficially owned 88.8% of our Class B common stock, representing 86.2% of the combined voting power of our common stock. Each share of our Class B common stock has ten votes per share, and each share of our Class A common stock has one vote per share. As a result, affiliates of SunTx have the ability to elect all of the members of our board of directors and thereby control our policies and operations, including the appointment of management, future issuances of our Class A common stock or other securities, the payment of dividends, if any, on our Class A common stock, the incurrence of debt by us, amendments to our amended and restated certificate of incorporation and amended and restated bylaws, and the Company's entry into extraordinary transactions. This concentration of voting control could deprive you of an opportunity to receive a premium for your shares of our Class A common stock as part of a sale of our Company and ultimately might affect the market price of our Class A common stock. In addition, we have engaged, and expect to continue to engage, in related party transactions involving SunTx and certain companies they control. As a result, the interests of affiliates of SunTx may not in all cases be aligned with your interests.

In addition, SunTx may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its investment, even though such transactions might involve risks to you. For example, SunTx could cause us to make acquisitions that increase our indebtedness or cause us to sell revenue-generating assets. SunTx is in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. Our amended and restated certificate of incorporation provides that none of SunTx, any of its affiliates or any director who is not employed by us or his or her affiliates will have any duty to refrain from engaging, directly or indirectly, in the same business activities or similar business activities or lines of business in which we operate. SunTx also may pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

So long as SunTx and its affiliates continue to beneficially own a sufficient number of shares of our Class B common stock, they will continue to be able to effectively control our decisions. For example, if our Class B common stock amounted to 15% of our outstanding common stock, holders of our Class B common stock (including SunTx and its affiliates) would collectively control approximately 63.8% of the voting power of our common stock based on the number of shares of Class A and Class B common stock outstanding at December 10, 2018. Shares of our Class B common stock may be transferred to an unrelated third party if a majority of the shares of our Class B common stock held by SunTx and its affiliates have consented to such transfer in writing in advance.

If securities or industry analysts do not publish research or reports about our business, if they adversely change their recommendations regarding our Class A common stock or if our operating results do not meet their expectations, the price of our Class A common stock could decline.

The trading market for our Class A common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of these analysts cease coverage of our Company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the price or trading volume of our Class A common stock to decline. Moreover, if one or more of the analysts who cover our Company downgrades our Class A common stock or if our operating results do not meet their expectations, the price of our Class A common stock could decline.

We may issue preferred stock with terms that could adversely affect the voting power or value of our Class A common stock.

Our amended and restated certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our Class A common stock with respect to dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our Class A common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or upon the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws and Delaware corporate law make it more difficult to effect a change in control of our Company, which could adversely affect the price of our Class A common stock.

Certain provisions in our amended and restated certificate of incorporation and amended and restated bylaws and Delaware corporate law could delay or prevent a change in control of our Company, even if that change would be beneficial to our stockholders. Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make acquiring control of our Company difficult, including:

- a dual class common stock structure, which currently provides SunTx and its affiliates and the other holders of our Class B common stock with the ability to control the outcome of matters requiring stockholder approval, so long as they continue to beneficially own a sufficient number of shares of our Class B common stock, even if they own significantly less than 50% of the shares of our outstanding common stock;
- a classified board of directors with three-year staggered terms;
- provisions regulating the ability of our stockholders to nominate directors for election or to bring matters for action at annual meetings of our stockholders;
- limitations on the ability of our stockholders to call a special meeting;
- the ability of our board of directors to adopt, amend or repeal bylaws, and the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained for stockholders to amend our amended and restated bylaws;
- the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained to remove directors;
- the requirement that the affirmative vote of holders representing at least 66 2/3% of the voting power of all outstanding shares of capital stock be obtained to amend our amended and restated certificate of incorporation; and
- the authorization given to our board of directors to issue and set the terms of preferred stock without the approval of our stockholders.

These provisions also could discourage proxy contests and make it more difficult for you and other stockholders to elect directors and take other corporate actions. As a result, these provisions could make it more difficult for a third party to acquire us, even if doing so would benefit our stockholders, which may limit the price that investors are willing to pay in the future for shares of our Class A common stock.

Our amended and restated certificate of incorporation designates courts in the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.

Our amended and restated certificate of incorporation provides that, subject to limited exceptions, a state court located within the State of Delaware is the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders;
- any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law (the "DGCL"); or
- any action asserting a claim against us that is governed by the internal affairs doctrine.

In addition, our amended and restated certificate of incorporation provides that if any action specified above (each is referred to herein as a covered proceeding), is filed in a court other than a court located within the State of Delaware (each is referred to herein as a foreign action), the claiming party will be deemed to have consented to (i) the personal jurisdiction of state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce the exclusive forum provision described above and (ii) having service of process made upon such claiming party in any such enforcement action by service upon such claiming party's counsel in the foreign action as agent for such claiming party.

These provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the covered proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

Because we are a “controlled company” under the listing standards of The Nasdaq Stock Market LLC and the rules of the SEC, our stockholders do not have, and may never have, certain corporate governance protections that are available to stockholders of companies that are not controlled companies.

SunTx and its affiliates control a majority of the voting power of our outstanding common stock. As a result, we are a “controlled company” under the listing standards of The Nasdaq Stock Market LLC and SEC rules. As a result, we are not required to comply with certain provisions requiring that (i) a majority of our directors be independent, (ii) the compensation of our executives be determined by independent directors or (iii) nominees for election to our board of directors be selected by independent directors. Because we intend to take advantage of some or all of these exemptions, our stockholders may not have the protections that these rules are intended to provide. Our status as a controlled company could cause our Class A common stock to be less attractive to certain investors or otherwise reduce the trading price of our Class A common stock.

We do not intend to pay cash dividends on our Class A common stock in the foreseeable future, and therefore only appreciation, if any, of the price of our Class A common stock will provide a return to our stockholders.

We currently anticipate that we will retain all future earnings, if any, to finance the growth and development of our business. We do not intend to pay cash dividends on our Class A common stock in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors deemed relevant by our board of directors. In addition, the Compass Credit Agreement restricts our ability to pay cash dividends. As a result, only appreciation of the price of our Class A common stock, which may not occur, will provide a return to our stockholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our headquarters are located in a 7,000 square foot owned office space in Dothan, Alabama. At September 30, 2018, we operated 30 HMA plants and had 30 office locations and nine quarries. We believe all of our properties are suitable for their intended use and that our facilities are adequate to conduct our operations. However, we routinely evaluate the purchase or lease of additional properties or the consolidation of our properties as our business needs change.

The following table sets forth certain information about our properties, including the type of property and the nature of our interest therein.

Property Location	Owned/Leased	Quarry	Plant	Office Space
Alabama				
Andalusia	Leased	—	—	X
Ariton	Owned	—	X	X
Brantley	Leased	—	X	—
Calera	Leased	—	X	—
Clanton	Owned	—	X	X
Deatsville	Owned	X	—	X
Decatur	Owned	—	X	X
Dothan	Leased	—	—	X
Dothan (headquarters)	Owned	—	—	X
Ft. Payne	Leased	—	X	—
Gadsden	Owned	X	—	X
Guntersville	Leased	—	X	X
Headland	Owned	—	X	X
Huntsville	Owned	—	X	X
Lacon	Leased	—	X	—
Montgomery	Owned	—	—	X
Montgomery	Owned	—	—	X
Montgomery	Owned	—	X	X
Owens Cross Roads	Leased	—	—	X
Pelham	Leased	—	—	X
River Falls	Leased	—	X	—
Scottsboro	Owned	—	X	—
Shorter	Owned	X	—	X
Shorter	Owned	—	X	—
Shorter	Leased	X	—	—
Skyline	Leased	X	—	X
Florida				
Freeport	Owned	—	X	X
Freeport	Owned	X	—	—
Hosford	Owned	—	—	X
Panama City	Owned	—	X	X
Plant City	Owned	—	X	X
Tallahassee	Owned	—	X	X
Tallahassee	Owned	—	—	X
Wildwood	Owned	—	X	X

Property Location	Owned/Leased	Quarry	Plant	Office Space
Georgia				
Adel	Leased	X	—	—
Cochran	Owned	—	X	X
Hahira	Owned	—	X	X
Lenox	Owned	—	X	—
Meigs	Owned	—	X	—
Mount Vernon	Owned	X	—	—
Oak Park	Leased	—	X	—
Nashville	Leased	X	—	—
Surrency	Owned	—	X	X
North Carolina				
Holly Springs	Leased	—	X	—
Kenly	Leased	—	X	—
Knightdale	Leased	—	X	—
Raleigh	Owned	—	—	X
Raleigh	Leased	—	—	X
Raleigh	Leased	—	X	—
Wake Forest	Leased	—	X	—

Item 3. Legal Proceedings.

Due to the nature of our business, we are involved in routine litigation or subject to other disputes or claims related to our business activities, including workers' compensation claims, employment-related disputes and liability issues or breach of contract or tortious conduct in connection with the performance of services and provision of materials. We and our affiliates are also subject to government inquiries in the ordinary course of business seeking information concerning our compliance with government construction contracting requirements, the outcome of which cannot be predicted with certainty. In the opinion of our management, after consultation with legal counsel, none of the pending litigation, disputes or claims against us, if decided adversely to us, would have a material adverse effect on our financial condition, cash flows or results of operations.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 C.F.R. Part 229.104) is included in Exhibit 95.1 to this Annual Report on Form 10-K.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

From our inception in 2007 until April 2018, we maintained a single class of common stock. On April 23, 2018, we amended and restated our certificate of incorporation to effectuate a dual-class equity structure, which we refer to as the "Reclassification." The Reclassification resulted in the conversion of each share of our then-outstanding common stock into 25.2 shares of Class B common stock and the initial authorization of Class A common stock.

Market for Our Common Stock

Our Class A common stock is listed and trades on the Nasdaq Global Select Market under the symbol "ROAD." Prior to its listing on the Nasdaq Global Select Market on May 4, 2018, there was no established public trading market for our Class A common stock. There is no established public trading market for our Class B common stock.

Holdings

As of December 10, 2018, there were 11,950,000 shares of our Class A common stock outstanding, all of which were held in "street name" through a single stockholder of record. The actual number of beneficial holders of our Class A common stock is significantly greater than the number of record holders and includes stockholders who are beneficial owners, but whose shares are held by banks, brokers and other nominees. The last sale price for a share of our Class A common stock as reported on the Nasdaq Global Select Market on December 10, 2018 was \$8.75.

As of December 10, 2018, there were 39,464,619 shares of our Class B common stock outstanding, held by 16 stockholders of record.

Dividends

Holdings of our Class A and Class B common stock receive dividends if and when declared by our board of directors out of legally available funds. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate declaring or paying any cash dividends in the foreseeable future. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, results of operations, contractual restrictions, capital requirements, business prospects and other factors that our board of directors considers relevant. In addition, the terms of the Compass Credit Agreement restrict our ability to pay cash dividends to the holders of our common stock unless, after giving effect to such dividend, we would remain in compliance with the financial covenants and, at the time any such dividend is made, no default or event of default exists or would result from the payment of such dividend.

The Company declared and paid one cash dividend during the past two fiscal years. On December 21, 2016, our board of directors declared a cash dividend of approximately \$31.3 million, or \$0.754 per share of common stock, to the stockholders of record at December 15, 2016. The dividend was paid from cash on hand on January 10, 2017.

Recent Sales of Unregistered Securities

During the fiscal year ended September 30, 2018, we granted to certain officers and employees a total of 126,000 restricted shares of our Class B common stock under the Construction Partners, Inc. 2016 Equity Incentive Plan, of which 63,000 shares vested on February 23, 2018 (the grant date) and the remaining 63,000 shares vested on July 1, 2018. This grant was made for compensatory purposes pursuant to a written plan or contract, a copy which was delivered to each purchaser, in reliance on Rule 701 under the Securities Act.

Use of Proceeds from Our Initial Public Offering of Class A Common Stock

On May 3, 2018, the Registration Statement on Form S-1 (No. 333-224174) that we filed in connection with the initial public offering of our Class A common stock (the "Form S-1") was declared effective by the SEC. There has been no material change in our planned use of the proceeds that we received from the sale of shares of our Class A common stock in the initial public offering from that described in the prospectus forming part of the Form S-1 and other periodic reports that we have filed with the SEC.

Issuer Purchases of Equity Securities

During the quarter ended September 30, 2018, we did not purchase any of our equity securities that are registered under Section 12(b) of the Exchange Act.

Item 6. Selected Financial Data.

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act, and therefore are not required to provide the information called for by this Item.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This discussion and analysis of our financial condition and results of operations is intended to assist in understanding and assessing the trends and significant changes in our results of operations and financial condition. Historical results may not be indicative of future performance. This discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Such statements involve risks and uncertainties. Our actual results may differ materially from those contemplated by these forward-looking statements as a result of various factors, including those set forth under the headings "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements." This discussion should be read in conjunction with our audited consolidated financial statements and the notes thereto included elsewhere in this Annual Report on Form 10-K. In this discussion, we use certain non-GAAP financial measures. Explanation of these non-GAAP financial measures and reconciliation to the most directly comparable GAAP financial measures are included in this "Management's Discussion and Analysis of Financial Condition and Results of Operations." Investors should not consider non-GAAP financial measures in isolation or as substitutes for financial information presented in compliance with GAAP.

Overview

We are one of the fastest growing civil infrastructure companies in the United States specializing in the building and maintenance of transportation networks. Our operations leverage a highly skilled workforce, strategically located HMA plants, substantial construction assets and select material deposits. We provide construction products and services to both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential sites in the southeastern United States.

Our public projects are funded by federal, state and local governments and include projects for roads, highways, bridges, airports and other forms of infrastructure. Public transportation infrastructure projects historically have been a relatively stable portion of state and federal budgets and represent a significant share of the United States construction market. Federal funds are allocated on a state-by-state basis, and each state is required to match a portion of the federal funds they receive. Federal highway spending uses funds predominantly from the Highway Trust Fund, which derives its revenues from fuel taxes and other user fees.

In addition to public infrastructure projects, we provide a wide range of large sitework construction and HMA paving services to private construction customers, including commercial and residential developers and local businesses.

How We Assess Performance of Our Business

Revenues

We derive our revenues predominantly by providing construction products and services for both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential sites. Our projects represent a mix of federal, state, municipal and private customers. We also derive revenues from the sale of HMA and aggregates to customers. Revenues derived from projects are recognized on the percentage-of-completion basis, measured by the relationship of total cost incurred compared to total estimated contract costs (cost-to-cost method). Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. Revenues derived from the sale of HMA and aggregates are recognized when risks associated with ownership have passed to the customer.

Gross Profit

Gross profit represents revenues less cost of revenues. Cost of revenues consists of all direct and indirect costs on construction contracts, including raw materials, labor, equipment costs, depreciation, lease expenses, subcontract costs and other expenses at our HMA plants and aggregate mining facilities. Our cost of revenues is directly affected by fluctuations in commodity prices, primarily liquid asphalt and diesel fuel. From time to time, when appropriate, we limit our exposure to changes in commodity prices by entering into forward purchase commitments. In addition, our public infrastructure contracts often provide for price adjustments based on fluctuations in certain commodity-related product costs. These price adjustment provisions are in place for most of our public infrastructure contracts, and we seek to include similar provisions in our private contracts.

Depreciation, Depletion and Amortization

We carry property, plant and equipment on our balance sheet at cost, net of accumulated depreciation, depletion and amortization. Depreciation on property, plant and equipment is computed on a straight-line basis over the estimated useful life of the asset. Amortization expense is the periodic expense related to leasehold improvements and intangible assets. Leasehold improvements are amortized over the lesser of the life of the underlying asset or the remaining lease term. Our intangible assets were recognized as a result of certain acquisitions and are generally amortized on a straight-line basis over the estimated useful lives of the assets. Quarry reserves are depleted in accordance with the units-of-production method as aggregate is extracted, using the initial allocation of cost based on proven and probable reserves.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and personnel costs for our administration, finance and accounting, legal, information systems, human resources and certain managerial employees. Additional expenses include audit, consulting and professional fees, travel, insurance, office space rental costs, property taxes and other corporate and overhead expenses.

Gain on Sale of Equipment, net

In the normal course of business, we sell construction equipment for various reasons, including when the cost of maintaining the asset exceeds the cost of replacing it. The gain or loss on sale of equipment reflects the difference between the carrying value at the date of disposal and the net consideration received from the sale of equipment during the period.

Interest Expense, net

Interest expense, net primarily represents interest incurred on our long-term debt, such as the Compass Term Loan and the Compass Revolving Credit Facility, as well as the cost of interest swap agreements and amortization of deferred debt issuance costs. These amounts are partially offset by interest income earned on short-term investments of cash balances in excess of our current operating needs.

Other Key Performance Indicators

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA represents net income before interest expense, net, provision for income taxes, depreciation, depletion and amortization, equity-based compensation expense, loss on extinguishment of debt and certain management fees and expenses, and excludes income recognized in connection with the Settlement ⁽¹⁾. Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of revenues for each period. These metrics are supplemental measures of our operating performance that are neither required by, nor presented in accordance with, GAAP. These measures should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP as an indicator of our operating performance. We present Adjusted EBITDA and Adjusted EBITDA Margin because management uses these measures as key performance indicators, and we believe they are measures frequently used by securities analysts, investors and other parties to evaluate companies in our industry. These measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP.

Our calculation of Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly named measures reported by other companies. Potential differences between our measure of Adjusted EBITDA compared to other similar companies' measures of Adjusted EBITDA may include differences in capital structures, tax positions and the age and book depreciation of intangible and tangible assets.

The following table presents a reconciliation of net income, the most directly comparable measure calculated in accordance with GAAP, to Adjusted EBITDA, and the calculation of Adjusted EBITDA Margin for each of the periods presented.

	For the Fiscal Year Ended September 30,	
	2018	2017
(in thousands, except percentages)		
Net income	\$ 50,791	\$ 26,040
Interest expense, net	1,270	3,960
Provision for income taxes	10,525	14,742
Depreciation, depletion and amortization of long-lived assets	25,321	21,072
Equity-based compensation expense	975	513
Loss on extinguishment of debt	—	1,638
Settlement income ⁽¹⁾	(14,803)	—
Management fees and expenses ⁽²⁾	1,457	1,309
Adjusted EBITDA	<u>\$ 75,536</u>	<u>\$ 69,274</u>
Revenues	<u>\$ 680,096</u>	<u>\$ 568,212</u>
Adjusted EBITDA Margin	11.1%	12.2%

⁽¹⁾ Represents pre-tax income recognized in connection with the Settlement (see Note 21 - Settlement Agreement to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K).

⁽²⁾ Reflects fees and reimbursement of certain travel expenses under a management services agreement with SunTx (see Note 18 - Related Parties to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K).

Results of Operations

Fiscal Year Ended September 30, 2018 Compared to Fiscal Year Ended September 30, 2017

The following table sets forth selected financial data for the fiscal years ended September 30, 2018 ("fiscal 2018") and September 30, 2017 ("fiscal 2017"):

	For the Fiscal Year Ended September 30,				Change from Fiscal Year 2017 to Fiscal Year 2018	
	2018		2017		\$ Change	% Change
	Dollars	% of Revenues	Dollars	% of Revenues		
<i>(in thousands, except percentages)</i>						
Revenues	\$ 680,096	100.0 %	\$ 568,212	100.0 %	\$ 111,884	19.7 %
Cost of revenues	580,560	85.4 %	477,241	84.0 %	103,319	21.6 %
Gross profit	99,536	14.6 %	90,971	16.0 %	8,565	9.4 %
General and administrative expenses	(55,303)	(8.2)%	(47,867)	(8.4)%	(7,436)	15.5 %
Settlement income	14,803	2.2 %	—	— %	14,803	N/A
Gain on sale of equipment, net	2,392	0.4 %	3,481	0.6 %	(1,089)	(31.3)%
Operating income	61,428	9.0 %	46,585	8.2 %	14,843	31.9 %
Interest expense, net	(1,270)	(0.2)%	(3,960)	(0.7)%	2,690	(67.9)%
Loss on extinguishment of debt	—	— %	(1,638)	(0.3)%	1,638	(100.0)%
Other expense	(101)	— %	(205)	— %	104	(50.7)%
Income before provision for income taxes and earnings from investment in joint venture	60,057	8.8 %	40,782	7.2 %	19,275	47.3 %
Provision for income taxes	10,525	1.5 %	14,742	2.6 %	(4,217)	(28.6)%
Earnings from investment in joint venture	1,259	0.2 %	—	— %	1,259	N/A
Net income	\$ 50,791	7.5 %	\$ 26,040	4.6 %	\$ 24,751	95.0 %
Adjusted EBITDA	\$ 75,536	11.1 %	\$ 69,274	12.2 %	\$ 6,262	9.0 %

Revenues. Revenues for fiscal 2018 increased \$111.9 million, or 19.7%, to \$680.1 million from \$568.2 million for fiscal 2017. The increase in revenues was primarily due to a \$191.0 million higher backlog at the beginning of fiscal 2018 compared to the beginning of fiscal 2017, the increase in available work in our existing markets, and \$51.4 million of revenues from two acquisitions and two greenfield expansions we completed subsequent to September 30, 2017.

Gross Profit. Gross profit for fiscal 2018 increased \$8.5 million, or 9.4%, to \$99.5 million from \$91.0 million for fiscal 2017. The higher gross profit was the result of the 19.7% revenue increase for fiscal 2018 compared to fiscal 2017. The decrease in gross profit as a percentage of revenues was due to the negative impact of rising asphalt cement prices on margins from internal and external sales of HMA.

General and Administrative Expenses. General and administrative expenses include costs related to our operational offices that are not allocated to direct contract costs and expenses related to our corporate offices. General and administrative expenses for fiscal 2018 increased \$7.4 million, or 15.5%, to \$55.3 million from \$47.9 million for fiscal 2017. The increase in general and administrative expenses for fiscal 2018 compared to fiscal 2017 was attributable to (i) a \$4.2 million increase in management payroll and benefit costs as a result of the two acquisitions and two greenfield expansions we completed subsequent to September 30, 2017, and other growth, and (ii) a \$1.3 million increase in professional expenses and insurance costs related to increased regulatory and reporting requirements due to becoming a public company.

Interest Expense, Net. Interest expense, net for fiscal 2018 decreased \$2.7 million, or 67.9%, to \$1.3 million compared to \$4.0 million for fiscal 2017. The decrease in interest expense, net was due to lower interest rates applicable to our variable interest loans during fiscal 2018 compared to fiscal 2017 and a lower amortization of deferred debt issuance costs of \$0.1 million compared to \$0.7 million during the same periods. This reduction in interest rates was due to lower effective interest rates under the Compass Credit Agreement, which we entered into on June 30, 2017. In addition, to hedge against future changes in the variable interest rates, we entered into

interest rate swap agreements tied to our variable rate debt. These interest rate swap agreements do not qualify for hedge accounting treatment in accordance with GAAP; therefore, changes in fair value are reflected within interest expense on the Consolidated Statements of Income. During fiscal 2018, the change in the fair value of the interest rate swaps resulted in a \$0.4 million credit to interest expense.

Loss on Extinguishment of Debt. We recorded a \$1.6 million loss on extinguishment of debt during fiscal 2017 resulting from the unamortized deferred debt issuance costs related to the CIT Credit Facility (as defined in Note 12 - Debt to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K) and other debt refinanced at June 30, 2017. There were no transactions during fiscal 2018 resulting in a loss on extinguishment of debt.

Settlement Income. During fiscal 2018, we recorded settlement income of \$14.8 million reflecting the net present value of future payments to be received in connection with the Settlement. Pursuant to the Settlement, we will receive aggregate net payments of approximately \$15.7 million, payable in four equal installments between January 2019 and July 2020, in exchange for releasing and waiving all current and future claims against a third party.

Provision for Income Taxes. Our effective tax rate decreased to 17.2% for fiscal 2018, from 36.1% for fiscal 2017. Our lower effective tax rate for fiscal 2018 was primarily due to the impacts of comprehensive tax legislation enacted by the U.S. government on December 22, 2017, known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act includes broad and complex changes to the U.S. tax code, including a reduction in the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. Specifically, we completed the Company's accounting for the income tax effects of the Tax Act during fiscal 2018 and recorded a discrete tax benefit of \$4.6 million related to the Tax Act, primarily due to adjusting its U.S. deferred tax liabilities by the same amount, reflecting the reduction in the U.S. federal corporate tax rate. This net reduction in deferred tax liabilities also included the estimated impact on the Company's net state deferred tax assets. Accordingly, the effective tax rate for fiscal 2018 reflects a federal income tax provision based on a blended U.S. statutory tax rate of 24.5%, which is calculated based on a proration of the applicable tax rates before and after the effective date of the Tax Act during fiscal 2018, and the effect of applicable state income taxes. The effective tax rate for fiscal 2018 was also reduced by a \$1.4 million permanent tax benefit resulting from the deduction of the excess fair market value of options exercised under the 2010 Non-Plan Stock Option Agreement over the exercise price.

Earnings from Investment in Joint Venture. During fiscal 2018, we earned \$1.3 million of pre-tax income from our 50% interest in the earnings of a joint venture. We entered into the joint venture with a third party in November 2017 for the sole purpose of performing a construction project for the Alabama Department of Transportation. We did not have an interest in a joint venture during fiscal 2017.

Net Income. Net income increased \$24.8 million, or 95.0%, to \$50.8 million for fiscal 2018 compared to \$26.0 million for fiscal 2017. This increase in net income was a result of (i) the Settlement income and earnings from investment in a joint venture during fiscal 2018 with no comparable amounts during fiscal 2017; (ii) a \$1.6 million loss on extinguishment of debt during fiscal 2017 with no comparable amount during fiscal 2018; (iii) a reduction in interest expense and (iv) benefits of a lower effective tax rate during fiscal 2018 compared to fiscal 2017, all as described above. The increase in gross profit for fiscal 2018 compared to fiscal 2017 was substantially offset by the increase in general and administrative expenses during the same periods.

Adjusted EBITDA and Adjusted EBITDA Margin. Adjusted EBITDA and Adjusted EBITDA Margin were \$75.5 million and 11.1%, respectively, for fiscal 2018, compared to \$69.3 million and 12.2%, respectively, for fiscal 2017. The increase in Adjusted EBITDA primarily resulted from the increase in gross profit and depreciation for fiscal 2018 compared to fiscal 2017, partially offset by the increase in general and administrative expense and the decline in gain on sale of equipment. The decrease in Adjusted EBITDA Margin is the result of lower gross profit as a percent of revenue and the decline in the gain on sale of equipment, partially offset by lower general and administrative expenses as a percentage of revenue in fiscal 2018 compared to fiscal 2017. See the description of Adjusted EBITDA and Adjusted EBITDA Margin, as well as a reconciliation of Adjusted EBITDA to net income under the heading "How We Assess Performance of Our Business".

Inflation and Price Changes

Inflation had an immaterial impact on our results of operations for the fiscal years ended September 30, 2018 and 2017 due to relatively low inflation in the United States in recent years and our ability to recover increasing costs by obtaining higher prices for our products, including sale price escalator clauses in most of our public infrastructure sector contracts. Inflation risk varies with the level of activity in our industry, the number, size and strength of competitors and the availability of products to supply a local market.

Liquidity and Capital Resources

Cash Flows Analysis

The following table sets forth our cash flows for the periods indicated.

	For the Fiscal Year Ended September 30,	
	2018	2017
<i>(in thousands)</i>		
Net cash provided by operating activities, net of acquisition	\$ 66,121	\$ 46,927
Net cash used in investing activities	(89,592)	(30,686)
Net cash provided by (used in) financing activities	95,061	(39,779)
Net change in cash and cash equivalents	<u>\$ 71,590</u>	<u>\$ (23,538)</u>

Operating Activities

Cash provided by operating activities, net of acquisition, was \$66.1 million for fiscal 2018, an increase of \$19.2 million compared to \$46.9 million for fiscal 2017. The increase was primarily due to a \$24.8 million increase in net income for fiscal 2018 compared to fiscal 2017, partially offset by a \$5.7 million reduction in changes in operating assets and liabilities for those same periods. The decrease in changes in operating assets and liabilities included (i) a \$10.3 million greater decrease in accrued expenses and other liabilities, (ii) a \$14.2 million greater increase in other assets and other current assets, primarily due to the Settlement income, and (iii) a \$9.0 million lesser increase in net billings in excess of costs and estimated earnings on uncompleted contracts, partially offset by a \$28.9 million greater reduction in contracts receivable including retainage, net, reflecting fluctuations resulting from the timing of performing and closing projects. Our working capital results from both public and private sector projects. Customers in the private sector typically pay more slowly than customers in the public sector, and private sector contracts often contain retention provisions that allow the customer to withhold a percentage of the revenues earned until the completion of the project.

Investing Activities

Cash used in investing activities was \$89.6 million for fiscal 2018 compared to \$30.7 million for fiscal 2017. The increase reflects a \$40.5 million increase in cash used in business acquisitions, net of cash acquired, and a \$18.4 million increase in purchases of property, plant and equipment to execute our greenfield activities and other organic growth opportunities.

Financing Activities

Cash provided by financing activities was \$95.1 million for fiscal 2018 compared to \$39.8 million of cash used in financing activities during fiscal 2017. Fiscal 2018 included \$98.0 million of proceeds from our initial public offering of Class A common stock, net of offering costs. Fiscal 2017 included the payment of a \$31.3 million dividend.

Compass Credit Agreement

On June 30, 2017, Construction Partners Holdings, our wholly owned subsidiary, entered into the Compass Credit Agreement, with Compass Bank as agent (the "Agent"), sole lead arranger and sole bookrunner, providing for a \$50.0 million Compass Term Loan and a \$30.0 million Compass Revolving Credit Facility. In connection with the Scruggs Acquisition, the Company amended the Compass Credit Agreement on May 15, 2018 and borrowed an additional \$22.0 million under the Compass Term Loan to fund a portion of the purchase price. The principal amount of the Compass Term Loan, including the additional borrowing, must be paid in quarterly installments of \$3.6 million. All amounts borrowed under the Compass Credit Agreement mature on July 1, 2022.

Construction Partners Holdings' obligations under the Compass Credit Agreement are guaranteed by the Company and all of Construction Partners Holdings' direct and indirect subsidiaries and are secured by first priority security interests in substantially all of the Company's assets.

Under the Compass Credit Agreement, borrowings can be designated as base rate loans or Euro-Dollar Loans. The interest rate on base rate loans fluctuates and is equal to (i) the highest of: (a) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its "prime rate," (b) the federal funds rate plus 0.50% and (c) the quotient of the LIBOR for deposits in U.S. dollars as obtained from Reuters, Bloomberg or another commercially available source designated by the Agent two Euro-Dollar Business Days (as defined in the Compass Credit Agreement) before the first day of the applicable interest period divided by 1.00, minus the Euro-Dollar Reserve Percentage (as defined in the Compass Credit Agreement), plus 1.0% for a one-month interest period,

plus (ii) the applicable rate, which ranges from 2.0% to 2.25%. The interest rate for Euro-Dollar loans fluctuates and is equal to the sum of the applicable rate, which ranges from 2.0% to 2.25%, plus LIBOR for the interest period selected by the Agent.

At September 30, 2018 and September 30, 2017, the interest rate on outstanding borrowings under the Compass Term Loan and Compass Revolving Credit Facility was 4.242% and 3.235%, respectively. At September 30, 2018 and September 30, 2017, we had availability of \$14.0 million and \$11.3 million, respectively, under the Compass Revolving Credit Facility, including reduction for outstanding letters of credit. In order to hedge against changes in interest rates, on June 30, 2017, we entered into an amortizing \$25.0 million notional interest rate swap agreement applicable to outstanding debt under the Compass Term Loan, under which we pay a fixed percentage rate of 2.015% and receive a credit based on the applicable LIBOR rate. In connection with the amendment to the Compass Amendment and the additional borrowing on May 15, 2018, we entered into an additional \$11.0 million notional interest rate swap agreement applicable to the \$22.0 million of additional debt under the Compass Term Loan. Under this additional swap agreement, we pay a fixed percentage rate of 3.01% and receive a credit based on the applicable LIBOR rate. At September 30, 2018 and September 30, 2017, the aggregate notional value of these interest rate swap agreements was \$28.7 million and \$23.8 million, respectively, and the fair value was \$0.3 million and \$(0.2) million, respectively, which is included within other assets or other liabilities on our Consolidated Balance Sheets. We must pay a commitment fee of 0.35% per annum on the aggregate unused revolving commitments under the Compass Credit Agreement. We also must pay fees with respect to any letters of credit issued under the Compass Credit Agreement.

The Compass Credit Agreement contains usual and customary negative covenants for agreements of this type, including, but not limited to, restrictions on our ability to make acquisitions, make loans or advances, make capital expenditures and investments, create or incur indebtedness, create liens, wind up or dissolve, consolidate, merge or liquidate, or sell, transfer or dispose of assets. The Compass Credit Agreement requires us to satisfy certain financial covenants, including a minimum fixed charge coverage ratio of 1.20 to 1.00. At September 30, 2018 and September 30, 2017, our fixed charge ratio was 1.51 to 1.00 and 1.63 to 1.00, respectively. The Compass Credit Agreement also requires us to maintain a consolidated leverage ratio not to exceed 2.00 to 1.00, subject to certain adjustments as further described in the Compass Credit Agreement. At September 30, 2018 and September 30, 2017, our consolidated leverage ratio was 0.88 to 1.00 and 0.95 to 1.00, respectively. The Compass Credit Agreement includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, certain changes of control, material money judgments and failure to maintain subsidiary guarantees. The Compass Credit Agreement prevents us from paying dividends or otherwise distributing cash to our stockholders unless, after giving effect to such dividend, we would be in compliance with the financial covenants and, at the time any such dividend is made, no default or event of default exists or would result from the payment of such dividend.

At September 30, 2018 and September 30, 2017, we were in compliance with all covenants under the Compass Credit Agreement.

Capital Requirements and Sources of Liquidity

During fiscal 2018 and fiscal 2017, our capital expenditures were approximately \$42.8 million and \$24.4 million, respectively. Our capital expenditures are typically made during the same fiscal year in which they are approved. At September 30, 2018, our commitments for capital expenditures were not material to our financial condition or results of operations on a consolidated basis. For fiscal 2019, we expect total capital expenditures to be approximately \$39.0 million to \$42.0 million. Our capital expenditure budget is an estimate and is subject to change. As described further below, we believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our working capital needs and planned capital expenditures for the next twelve months.

Historically, we have had significant cash requirements in order to organically expand our business into new geographic markets. Our cash requirements include costs related to increased capital expenditures, purchase of materials and production of materials and cash to fund our organic expansion into new markets. Our working capital needs are driven by the seasonality and growth of our business, with our cash requirements increasing in periods of growth. Additional cash requirements resulting from our growth include the costs of additional personnel, production and distribution facilities, enhancing our information systems and, in the future, our integration of any acquisitions and our compliance with laws and rules applicable to public companies.

We have historically relied upon cash available through credit facilities, in addition to cash from operations, to finance our working capital requirements and to support our growth. We regularly monitor potential capital sources, including equity and debt financings, in an effort to meet our planned capital expenditures and liquidity requirements. Our future success will depend on our ability to access outside sources of capital.

We believe that our operating cash flow and available borrowings under the Compass Revolving Credit Facility will be sufficient to fund our operations for at least the next twelve months. However, future cash flows are subject to a number of variables, and significant additional capital expenditures will be required to conduct our operations. There can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned or future levels of capital expenditures. In the event that we make one or more acquisitions and the amount of capital required is greater than the amount we have available for acquisitions at that time, we could be required to reduce the expected level of capital expenditures and/or seek additional capital. If we seek

additional capital, we may do so through borrowings under the Compass Revolving Credit Facility, joint ventures, asset sales, offerings of debt or equity securities or other means. We cannot guarantee that this additional capital will be available on acceptable terms or at all. If we are unable to obtain the funds we need, we may not be able to complete acquisitions that may be favorable to us or finance the capital expenditures necessary to conduct our operations.

Off-Balance Sheet Arrangements

The Company enters into operating leases for property and equipment in the normal course of business. See Note 19 - Commitments and Contingencies to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for additional information. Other than the operating leases described therein, we do not currently have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that would be material to investors.

Critical Accounting Policies and Estimates

The discussion of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and assumptions on an ongoing basis. The results of our analysis form the basis for making assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and the impact of such differences may be material to our consolidated financial statements.

Critical accounting policies are those policies that, in management's view, are the most important in the portrayal of our financial condition and results of operations. The notes to the consolidated financial statements also include disclosure of significant accounting policies. The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on the results that we report in our consolidated financial statements. These critical accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates regarding matters that are inherently uncertain. Our most critical accounting policies and estimates include those involved in the recognition of revenues and provision for income tax expense. Those critical accounting policies and estimates that require the most significant judgment are discussed further below.

Revenue Recognition

The majority of our public construction contracts are fixed unit price contracts. Under fixed unit price contracts, we are committed to providing materials or services required by a contract at fixed unit prices (for example, dollars per ton of asphalt placed). Our private customer contracts are primarily fixed total price contracts, also known as lump sum contracts, which require that the total amount of work be performed for a single price. Revenues from these construction contracts are recognized using the percentage-of-completion accounting method. Under this method, revenues are recognized as costs are incurred in an amount equal to cost plus the related expected profit based on the ratio of costs incurred to estimated final costs. This cost-to-cost measure is used because management considers it to be the best available measure of progress on these contracts. Contract costs consist of direct costs on contracts, including labor, materials, amounts payable to subcontractors and those indirect costs related to contract performance, such as equipment costs, insurance and employee benefits. Contract cost is recorded as incurred, and revisions in contract revenues and cost estimates are reflected in the accounting period when known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract change orders, penalty provisions and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

Change orders are modifications of an original contract that effectively change the existing provisions of the contract without adding new provisions or terms. Change orders may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Either we or our customers may initiate change orders. We consider unapproved change orders to be contract variations for which we have a change of scope for which we believe we are contractually entitled to a higher price, but where a price change associated with the scope change has not yet been agreed upon with the customer. Costs associated with unapproved change orders are included in the estimated cost to complete the contracts and are treated as project costs as incurred. We recognize revenues equal to costs incurred on unapproved change orders when realization of price approval is probable. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated costs and recoverable amounts may be required in future reporting periods to reflect changes in estimates or final agreements with customers. Change orders that are unapproved as to both price and scope are evaluated as claims. We consider claims to be amounts in excess of agreed contract prices that we seek to collect from our customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs. Claims are included in the calculation of revenues when realization is probable and amounts can be reliably determined. To support these requirements, the existence of the following items must be satisfied: (i) the contract or other evidence provides a legal basis for the claim or a legal opinion has been obtained, stating that, under the circumstances, there is a

reasonable basis to support the claim; (ii) additional costs are caused by circumstances that were unforeseen at the contract date and are not the result of deficiencies in our performance; (iii) costs associated with the claim are identifiable or otherwise determinable and are reasonable in view of the work performed; and (iv) the evidence supporting the claim is objective and verifiable, not based on management's subjective evaluation of the situation or on unsupported representations. Revenues in excess of contract costs incurred on claims are recognized when an agreement is reached with the customer as to the value of the claim, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are treated as project costs when incurred.

For the majority of our contracts, upon completion and final acceptance of the services that we were contracted to perform, we receive our final payment upon completion of the necessary contract closing documents, and our obligations to the owner are complete at that point. The accuracy of our revenues and profit recognition in a given period depends on the accuracy of our estimates of the revenues and costs to finish uncompleted contracts. Our estimates for all of our significant contracts use a highly detailed "bottom up" approach. However, our projects can be highly complex and, in almost every case, the profit margin estimates for a contract will either increase or decrease to some extent from the amount that was originally estimated at the time of bid. Because we have a large number of projects of varying levels of size and complexity in process at any given time, these changes in estimates can sometimes offset each other without materially impacting our overall profitability. However, large changes in revenues or cost estimates can have a significant effect on profitability. There are a number of factors that can contribute to changes in estimates of contract cost and profitability. The most significant of these include the completeness and accuracy of the original bid, recognition of costs associated with scope changes, extended overhead due to customer-related and weather-related delays, subcontractor and supplier performance issues and site conditions that differ from those assumed in the original bid to the extent contract remedies are unavailable. The foregoing factors, as well as the stage of completion of contracts in process and the mix of contracts at different margins, may cause fluctuations in gross profit between periods, and these fluctuations may be significant.

Contracts Receivable, Including Retainage

Contracts receivable are generally based on amounts billed to the customer and currently due in accordance with our contracts. Many of the contracts under which we perform work contain retainage provisions. Retainage refers to amounts that we have billed to the customer, but are being held for payment by the customer pending satisfactory completion of the project. Retainage on active contracts is classified as a current asset regardless of the term of the contract and is generally collected within one year of the completion of a contract. At September 30, 2018 and September 30, 2017, contracts receivable included \$16.8 million and \$13.2 million, respectively, of retainage, which was being contractually withheld by customers until completion of the associated contracts.

Because the majority of our construction contracts are entered into with federal, state or municipal government customers, credit risk is minimal. We confirm that funds have been appropriated by the government project owner prior to commencing work on such projects. While most of our public contracts are subject to termination at the election of the government entity, in the event of any such termination, we are entitled to receive the contract price for completed work and reimbursement of termination-related costs. Credit risk with private owners is minimized because of statutory mechanic's liens, which give us high priority in the event of lien foreclosures following financial difficulties of private owners. We maintain an allowance for doubtful accounts, which has historically been sufficient to cover accounts that are not collected.

Valuation of Long-Lived Assets and Goodwill

Long-lived assets, which include property, equipment and acquired intangible assets, such as goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment evaluations involve fair values and management estimates of useful asset lives and future cash flows. Actual useful lives and cash flows could be different from those estimated by management, and this could have a material effect on our operating results and financial position. For the fiscal years ended September 30, 2018 and 2017, there were no events or changes in circumstances that would indicate a material impairment of our long-lived assets.

Goodwill must be tested for impairment at least annually. We performed our most recent annual impairment test of goodwill on July 1, 2018. Our test indicated that there was no impairment of goodwill. The valuation is impacted by a number of factors, but the key factors are the price of our common stock, recently completed transactions from both public companies and private transactions and our estimated forecast of future cash flows.

The valuation approaches contain uncertainty regarding the estimates used. One of the largest uncertainties relates to federal, state and local government spending, which management expects to increase in the upcoming years. There are a number of other uncertainties with respect to our future financial performance that could impact estimated future cash flows, including those discussed under the heading "Risk Factors" elsewhere in this Annual Report on Form 10-K. Based on our valuation approaches, we determined that for each of our reporting units with goodwill, its fair value substantially exceeded its carrying value, and thus concluded that the carrying value of goodwill was not impaired at July 1, 2018 or July 1, 2017. At September 30, 2018 and September 30, 2017, we had goodwill with a carrying amount of \$32.9 million and \$30.6 million, respectively.

Income Taxes

Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and, where necessary, establish a valuation allowance. Valuation allowances are established to reduce deferred tax assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized in future periods.

To assess this likelihood, we use historical three-year results of operations, estimates and judgments regarding our future taxable income and consider the jurisdiction in which the taxable income is generated to determine whether a valuation allowance is required. Such evidence can include our current financial position, results of operations, actual and forecasted results, the reversal of deferred tax liabilities, tax planning strategies and the current and forecasted business economics of our industry. Additionally, we record uncertain tax positions at their net recognizable amount, based on the amount that management deems is more likely than not to be sustained upon ultimate settlement with the tax authorities in jurisdictions in which we operate.

On the basis of our evaluations, at September 30, 2018 and September 30, 2017, no valuation allowance was recorded on our net deferred tax assets, and we had no material uncertain tax positions. If our estimates or assumptions regarding our current and deferred tax items are inaccurate or are modified, these changes could have potentially material impacts on our earnings.

Accrued Insurance Cost

We carry insurance policies to cover various risks, primarily general liability, automobile liability and workers compensation, under which we are liable to reimburse the insurance company for a portion of each claim paid, ranging from \$100,000 to \$500,000 per occurrence. Prior to October 1, 2017, this amount was \$250,000 per occurrence. We accrue for probable losses, both reported and unreported, that are reasonably estimable using actuarial methods based on historic trends and modified, if necessary, by recent events. Changes in our loss assumptions caused by changes in actual experience would affect our assessment of the ultimate liability and could have an effect on our operating results and financial position up to \$500,000 per occurrence for general liability, automobile liability and workers' compensation claims.

We provide employee medical insurance under policies that are both fixed-premium, fully-insured policies and self-insured policies that are administered by the insurance company. Under the self-insured policies, we are liable to reimburse the insurance company for actual claims paid plus an administrative fee. We purchase separate stop-loss insurance, which limits the individual participant claim loss to amounts ranging from \$75,000 to \$160,000.

Share-Based Payments and Other Equity Transactions

Our equity incentive plans are administered by the Compensation Committee of our Board of Directors, which historically set stock option exercise prices based on then recent unregistered sales of our common stock prior to our initial public offering.

We recognize compensation expense for stock option awards based on valuation studies. Prior to the completion of our initial public offering, there had not been an established market for shares of our common stock. While we have issued new equity to unrelated parties, and we use such facts in the determination of the fair value of our shares, we believe that the historic lack of a secondary market for our common stock and our limited history issuing stock to unrelated parties currently make it impracticable to estimate our common stock's expected volatility. Therefore, it is not possible to reasonably estimate the grant-date fair value of our options using our own historical price data. Accordingly, we have applied the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 in accounting for the options using the calculated value method.

During fiscal 2018 and fiscal 2017, we estimated expected volatility based on the average volatility of five companies within three different Standard Industrial Classifications that management believed had comparable profiles.

Forfeitures are estimated using historical experience and projected employee turnover. These estimates require a considerable degree of judgment and affect the amount of stock-based compensation expense we recognize. If we determine that another method to estimate expected volatility or expected term is more reasonable than our current methods, or if another method for calculating fair value is prescribed by authoritative guidance, the fair value calculated for future stock-based awards could change significantly from past awards, even if the principal terms of the awards are similar. Higher volatility and longer expected terms result in an increase to stock-based compensation determined at the date of grant. The expected dividend rate and expected risk-free interest rate are not as significant to our calculation of fair value. A hypothetical 10% increase or decrease to any of the above assumptions would have had an immaterial impact on the amount of stock-based compensation expense we recognized in each of the periods presented. However, although changes in assumptions relative to expenses related to stock options granted outside of our equity incentive plan would be considered immaterial to us, future years could result in a more significant difference if we were to grant additional stock options, the value of our common stock increases significantly or our estimated volatility is higher.

Emerging Growth Company

The JOBS Act permits an “emerging growth company” like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have irrevocably elected to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted.

Seasonality

The use and consumption of our products and services fluctuate due to seasonality. Our products are used, and our construction operations and production facilities are located, outdoors. Therefore, seasonal changes and other weather-related conditions, in particular extended snowy, rainy or cold weather in the winter, spring or fall and major weather events, such as hurricanes, tornadoes, tropical storms and heavy snows, can adversely affect our business and operations through a decline in both the use of our products and demand for our services. In addition, construction materials production and shipment levels follow activity in the construction industry, which typically occurs in the spring, summer and fall. Warmer and drier weather during the third and fourth quarters of our fiscal year typically result in higher activity and revenues during those quarters. The first and second quarters of our fiscal year typically have lower levels of activity due to adverse weather conditions.

Commodity Price Risk

We are subject to commodity price risk with respect to price changes in liquid asphalt and energy, including fossil fuels and electricity for aggregates and asphalt paving mix production, natural gas for HMA production and diesel fuel for distribution vehicles and production-related mobile equipment. In order to manage or reduce commodity price risk, we monitor the costs of these commodities at the time of bid and price them into our contracts accordingly. Furthermore, liquid asphalt escalator provisions in most of our public contracts, and in some of our private and commercial contracts, limit our exposure to price fluctuations in this commodity. In addition, we enter into various firm purchase commitments, with terms generally less than one year, for certain raw materials.

Interest Rate Risk

We are exposed to interest rate risk on certain of our short- and long-term debt obligations used to finance our operations and acquisitions. We have LIBOR-based floating rate borrowings under the Compass Credit Agreement, which expose us to variability in interest payments due to changes in the reference interest rates. From time to time, we use derivative instruments as hedges against the impact of interest rate changes on future earnings and cash flows. In order to hedge against changes in interest rates and to manage fluctuations in cash flows resulting from interest rate risk, on June 30, 2017, we entered into an amortizing interest rate swap agreement applicable to \$25.0 million outstanding debt under the Compass Term Loan, for which we pay a fixed rate of 2.015% and receive a credit based on the applicable LIBOR rate. In connection with the amendment to the Compass Amendment and the additional borrowing on May 15, 2018, we entered into an additional \$11.0 million notional interest rate swap agreement applicable to the \$22.0 million additional debt under the Compass Term Loan. Under this additional swap agreement, we pay a fixed percentage rate of 3.01% and receive a credit based on the applicable LIBOR rate.

At September 30, 2018, we had a total of \$62.3 million of variable rate borrowings outstanding. Holding other factors constant and absent the interest rate swap agreement described above, a hypothetical 1% change in our borrowing rates would result in a \$0.6 million change in our annual interest expense based on our variable rate debt at September 30, 2018.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act, and therefore are not required to provide the information called for by this Item.

Item 8. Financial Statements and Supplementary Data.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Construction Partners, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Construction Partners, Inc. and its subsidiaries (the Company) as of September 30, 2018 and 2017, the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ RSM US LLP

We have served as the Company's auditor since 2017.

Birmingham, Alabama
December 14, 2018

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,137	\$ 27,547
Contracts receivable including retainage, net	120,291	120,984
Costs and estimated earnings in excess of billings on uncompleted contracts	9,334	4,592
Inventories	24,556	17,487
Prepaid expenses and other current assets	14,137	4,520
Total current assets	<u>267,455</u>	<u>175,130</u>
Property, plant and equipment, net	178,692	115,911
Goodwill	32,919	30,600
Intangible assets, net	3,735	2,550
Investment in joint venture	1,659	—
Other assets	10,270	2,483
Deferred income taxes, net	1,580	1,876
Total assets	<u>\$ 496,310</u>	<u>\$ 328,550</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 63,510	\$ 52,402
Billings in excess of costs and estimated earnings on uncompleted contracts	38,738	32,108
Current maturities of debt	14,773	10,000
Accrued expenses and other current liabilities	17,520	20,036
Total current liabilities	<u>134,541</u>	<u>114,546</u>
Long-term liabilities:		
Long-term debt, net of current maturities	48,115	47,136
Deferred income taxes, net	8,890	9,667
Other long-term liabilities	5,295	5,020
Total long-term liabilities	<u>62,300</u>	<u>61,823</u>
Total liabilities	<u>196,841</u>	<u>176,369</u>
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, par value \$0.001; 10,000,000 shares authorized at September 30, 2018 and 1,000,000 shares authorized at September 30, 2017 and no shares issued and outstanding	—	—
Class A common stock, par value \$0.001; 400,000,000 shares authorized, 11,950,000 shares issued and outstanding at September 30, 2018, and no shares authorized, issued and outstanding at September 30, 2017	12	—
Class B common stock, par value \$0.001; 100,000,000 shares authorized, 42,387,571 shares issued and 39,464,619 shares outstanding at September 30, 2018, and no shares authorized, issued and outstanding at September 30, 2017	42	—
Common stock, \$0.001 par value, no shares authorized, issued and outstanding at September 30, 2018, and 126,000,000 shares authorized, 44,987,575 shares issued and 41,691,541 shares outstanding at September 30, 2017	—	45
Additional paid-in capital	242,493	142,385
Treasury stock, at cost	(15,603)	(11,983)
Retained earnings	72,525	21,734
Total stockholders' equity	<u>299,469</u>	<u>152,181</u>
Total liabilities and stockholders' equity	<u>\$ 496,310</u>	<u>\$ 328,550</u>

See notes to consolidated financial statements.

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	For the Fiscal Year Ended September 30,	
	2018	2017
Revenues	\$ 680,096	\$ 568,212
Cost of revenues	580,560	477,241
Gross profit	99,536	90,971
General and administrative expenses	(55,303)	(47,867)
Settlement income	14,803	—
Gain on sale of equipment, net	2,392	3,481
Operating income	61,428	46,585
Interest expense, net	(1,270)	(3,960)
Loss on extinguishment of debt	—	(1,638)
Other expense	(101)	(205)
Income before provision for income taxes and earnings from investment in joint venture	60,057	40,782
Provision for income taxes	10,525	14,742
Earnings from investment in joint venture	1,259	—
Net income	\$ 50,791	\$ 26,040
Net income per share attributable to common stockholders:		
Basic	\$ 1.11	\$ 0.63
Diluted	\$ 1.11	\$ 0.63
Weighted average number of common shares outstanding:		
Basic	45,605,845	41,550,293
Diluted	45,919,648	41,550,293

See notes to consolidated financial statements.

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, September 30, 2016	44,987,575	\$ 45	—	\$ —	—	\$ —	\$ 141,872	\$ (12,621)	\$ 26,987	\$ 156,283
Sale of treasury stock	—	—	—	—	—	—	—	638	—	638
Common stock dividend paid	—	—	—	—	—	—	—	—	(31,293)	(31,293)
Equity-based compensation	—	—	—	—	—	—	513	—	—	513
Net income	—	—	—	—	—	—	—	—	26,040	26,040
Balance, September 30, 2017	44,987,575	45	—	—	—	—	142,385	(11,983)	21,734	152,181
Reclassification of common stock	(44,987,575)	(45)	—	—	44,987,571	45	—	—	—	—
Conversion of Class B common stock to Class A common stock in connection with initial public offering of Class A common stock	—	—	2,600,000	3	(2,600,000)	(3)	—	—	—	—
Initial public offering of Class A common stock, net of offering costs	—	—	9,350,000	9	—	—	98,000	—	—	98,009
Equity-based compensation expense	—	—	—	—	—	—	975	—	—	975
Sale of treasury stock	—	—	—	—	—	—	(453)	458	—	5
Cashless option exercise	—	—	—	—	—	—	1,586	(4,078)	—	(2,492)
Net income	—	—	—	—	—	—	—	—	50,791	50,791
Balance, September 30, 2018	—	\$ —	11,950,000	\$ 12	42,387,571	\$ 42	\$ 242,493	\$ (15,603)	\$ 72,525	\$ 299,469

See notes to consolidated financial statements.

CONSTRUCTION PARTNERS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Fiscal Year Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 50,791	\$ 26,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization of long-lived assets	25,321	21,072
Amortization of deferred debt issuance costs	94	660
Loss on extinguishment of debt	—	1,638
Provision for bad debt	604	1,445
Gain on sale of equipment	(2,392)	(3,481)
Equity-based compensation expense	975	513
Earnings from investment in joint venture	(1,259)	—
Deferred income taxes	(481)	865
Changes in operating assets and liabilities:		
Contracts receivable including retainage, net	9,273	(19,619)
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,955)	2,854
Inventories	(2,746)	(3,063)
Other current assets	(8,886)	(2,178)
Other assets	(7,787)	(286)
Accounts payable	7,462	11,639
Billings in excess of costs and estimated earnings on uncompleted contracts	2,041	5,220
Accrued expenses and other current liabilities	(4,778)	5,505
Other long-term liabilities	844	(1,897)
Net cash provided by operating activities, net of acquisition	<u>66,121</u>	<u>46,927</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(42,804)	(24,399)
Proceeds from sale of equipment	4,931	4,556
Business acquisition, net of cash acquired	(51,319)	(10,843)
Investment in joint venture	(400)	—
Net cash used in investing activities	<u>(89,592)</u>	<u>(30,686)</u>
Cash flows from financing activities:		
Repayments on revolving credit facility	(5,000)	(5,101)
Proceeds from revolving credit facility	—	10,000
Proceeds from issuance of long-term debt, net of debt issuance costs and discount	21,917	49,617
Repayments of long-term debt	(12,361)	(60,640)
Payment to seller of pre-acquisition balance due	(4,940)	—
Payment of treasury stock purchase obligation	(2,569)	(3,000)
Proceeds from initial public offering of Class A common stock, net of offering costs	98,009	—
Proceeds from sale of treasury stock	5	638
Common stock dividend paid	—	(31,293)
Net cash provided by (used in) financing activities	<u>95,061</u>	<u>(39,779)</u>
Net change in cash and cash equivalents	<u>71,590</u>	<u>(23,538)</u>
Cash and cash equivalents:		
Beginning of Period	27,547	51,085
End of Period	<u>\$ 99,137</u>	<u>\$ 27,547</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 2,336	\$ 3,307
Cash paid for income taxes	\$ 14,357	\$ 12,530
Non-cash items:		
Property, plant and equipment financed with accounts payable	\$ 395	\$ —
Outstanding note receivable in consideration of disposition of assets	\$ 850	\$ —

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

Business Description

Construction Partners, Inc. (the "Company") is a leading infrastructure and road construction company operating in Alabama, Florida, Georgia, North Carolina and South Carolina through its wholly owned subsidiaries. The Company provides site development, paving, utility and drainage systems, as well as hot mix asphalt supply. The Company executes projects for a mix of private, municipal, state, and federal customers that are both privately and publicly funded. The majority of the work is performed under fixed unit price contracts and, to a lesser extent, fixed total price contracts.

The Company was formed as a Delaware corporation in 2007 as a holding company for its wholly owned subsidiary, Construction Partners Holdings, Inc., a Delaware corporation incorporated in 1999 that began operations in 2001, to execute an acquisition growth strategy in the hot mix asphalt paving and construction industry. SunTx Capital Partners ("SunTx"), a private equity firm based in Dallas, Texas, is the Company's majority investor and has owned a controlling interest in the Company's stock since its inception. On September 20, 2017, the Company changed its name from SunTx CPI Growth Company, Inc. to Construction Partners, Inc.

Management's Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the recorded amounts of assets, liabilities, stockholders' equity, revenues and expenses during the reporting period, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used in accounting for items such as recognition of revenues and cost of revenues, goodwill and other intangible assets, allowance for doubtful accounts, valuation allowances related to income taxes, accruals for potential liabilities related to lawsuits or insurance claims, and the fair value of equity-based compensation awards. Estimates are continually evaluated based on historical information and actual experience; however, actual results could differ from these estimates.

Note 2 – Initial Public Offering

On April 23, 2018, the Company amended and restated its certificate of incorporation to effectuate a dual class common stock structure consisting of Class A common stock and Class B common stock. As a result, each share of common stock, par value 0.001 per share, was reclassified into 25.2 shares of Class B common stock so that all holders of shares of outstanding common stock became the holders of 41,817,537 shares of Class B common stock, and shares held by the Company in treasury became 3,170,034 Class B treasury shares (the "Reclassification"). The amended and restated certificate of incorporation authorized 400,000,000 shares of Class A common stock and 100,000,000 shares of Class B common stock. All share and per share amounts have been retroactively adjusted for all periods presented to give effect to the 25.2 to 1 split of the common stock as part of the Reclassification (the "Stock Split").

On May 8, 2018, the Company completed an initial public offering of 11,250,000 shares of Class A common stock at a price of \$12.00 per share (the "IPO"). Of these shares, 9,000,000 were sold by the Company, for which the Company received approximately \$100.4 million in proceeds, after deducting underwriting discounts and commissions of approximately \$7.6 million, and prior to additional total offering expenses of approximately \$6.3 million. Of the \$6.3 million additional offering expenses, \$2.2 million are reflected as capitalized equity issuance costs included within other current assets on the Consolidated Balance Sheet at September 30, 2017. All \$6.3 million of equity issuance costs were reclassified to additional paid-in capital during the fiscal year ended September 30, 2018 in connection with the successful completion of the IPO. The remaining 2,250,000 shares were sold by the holders of Class B common stock, which shares upon sale automatically converted into 2,250,000 shares of Class A common stock, thereby reducing the number of issued and outstanding shares of Class B common stock to 42,737,571 and 39,567,537, respectively. The Company did not receive any proceeds from the sale of shares by the holders of Class B common stock.

On May 24, 2018, the underwriters of the IPO partially exercised their over-allotment option to purchase an additional 700,000 shares of Class A common stock at the IPO price of \$12.00 per share less the underwriting discount and commissions. Of these shares, 350,000 were sold by the Company, for which the Company received approximately \$3.9 million in proceeds after deducting underwriting discounts and commissions of approximately \$0.3 million. The remaining 350,000 shares were sold by the holders of Class B common stock, which shares upon sale automatically converted into 350,000 shares of Class A common stock, thereby reducing the number of issued and outstanding shares of Class B common stock to 42,387,571 and 39,217,537, respectively. The Company did not receive any proceeds from the sale of shares by the holders of Class B common stock.

Note 3 - Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Construction Partners, Inc. and its wholly owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Common share and per share amounts have been retroactively adjusted for all periods presented to give effect to the Stock Split described in Note 2 - Initial Public Offering.

Emerging Growth Company

Construction Partners, Inc. is an “emerging growth company” as defined by the Jumpstart Our Business Startups Act, (the “JOBS Act”) enacted in April 2012. As an emerging growth company, the Company could have taken advantage of an exemption that would have allowed the Company to wait to comply with new or revised financial accounting standards until the effective date of such standards for private companies. However, the JOBS Act provides that a company may elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies, but such election to opt out is irrevocable. The Company has elected to opt out of such extended transition period, which means that when a standard is issued or revised and it has different effective dates for public and private companies, the Company is required to adopt the new or revised standard at the effective date applicable to public companies that are not emerging growth companies.

Cash and cash equivalents

Cash consists principally of currency on hand and demand deposits at commercial banks. Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash, and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less. The Company maintains demand accounts, money market accounts and certificates of deposit at several banks.

From time to time, account balances have exceeded the maximum available Federal Deposit Insurance Corporation deposit insurance coverage limit. The Company has not experienced any losses in such accounts and regularly monitors the Company’s credit risk.

Contracts Receivable Including Retainage, net

Contracts receivable are generally based on amounts billed and currently due from customers, amounts currently due but unbilled, and amounts retained by the customer pending completion of a project. It is common in the Company’s industry for a small portion of progress billings or the contract price, typically 10%, to be withheld by the customer until the Company completes a project to the satisfaction of the customer in accordance with contract terms. Such amounts are also included as contracts receivable including retainage. Based on the Company’s experience with similar contracts in recent years, billings for such retainage balances are generally collected within one year of the completion of the project.

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

Costs and Estimated Earnings on Uncompleted Contracts

Billing practices for the Company’s contracts are governed by the contract terms of each project based on progress toward completion approved by the owner, achievement of milestones or pre-agreed schedules. Billings do not necessarily correlate with revenues recognized under the percentage-of-completion method of accounting. The Company records current assets and current liabilities to account for these differences in timing.

The current asset, “Costs and estimated earnings in excess of billings on uncompleted contracts,” represents revenues that have been recognized in amounts that have not been billed under the terms of the contracts. Included in costs and estimated earnings on uncompleted contracts are amounts the Company seeks or will seek to collect from customers or others for errors, changes in contract specifications or design, contract change orders in dispute, unapproved as to scope and price, or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Such amounts are recorded at estimated net realizable value when realization is probable and can be reasonably estimated. Claims and unapproved change orders made by the Company may involve negotiation and, in rare cases, litigation. Unapproved change orders and claims also involve the use of estimates, and revenues associated with unapproved change orders and claims are included when realization is probable and amounts can be reliably determined. The Company did not recognize any material amounts associated with claims and unapproved change orders during the periods presented.

The current liability, “Billings in excess of costs and estimated earnings on uncompleted contracts,” represents billings to customers in excess of revenues recognized.

Concentration of Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of contracts receivable including retainage. In the normal course of business, the Company provides credit to its customers and does not generally require collateral. Concentrations of credit risk associated with these receivables are monitored on an ongoing basis. The Company has not historically experienced significant credit losses, due primarily to management's assessment of customers' credit ratings. The Company principally deals with recurring customers, state and local governments and well-known local companies whose reputations are known to management. The Company performs credit checks for significant new customers and generally requires progress payments for significant projects. The Company generally has the ability to file liens against the property if payments are not made on a timely basis. No single customer accounted for more than 10% of the Company's contracts receivable including retainage, net balance at September 30, 2018 or September 30, 2017.

Projects performed for various Departments of Transportation accounted for 42.9% and 41.9% of consolidated revenues for the fiscal years ended September 30, 2018 and September 30, 2017, respectively. Two customers accounted for more than 10% of consolidated revenues for the fiscal years ended September 30, 2018 and September 30, 2017, as follows:

	% of Consolidated Revenues for the Fiscal Year Ended September 30,	
	2018	2017
Alabama Department of Transportation	15.1%	14.9%
North Carolina Department of Transportation	13.3%	13.9%

Inventories

The Company's inventories are stated at the lower of cost or net realizable value using the average cost method. The cost of inventory includes the cost of material, labor, trucking and other equipment costs associated with procuring and transporting materials to asphalt plants for production and delivery to customers. Inventories consist primarily of raw materials, including asphalt cement, aggregate and millings that the Company expects to utilize on construction projects within one year.

Revenues and Cost Recognition

Revenues from the Company's contracts are recognized under the percentage-of-completion method of accounting, measured by the relationship of total cost incurred to total estimated contract costs (cost-to-cost method). Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in favorable or unfavorable revisions to estimated costs, revenues and gross profit, and are recognized in the period in which the revisions are determined. Revisions in estimates related to amounts recorded in prior periods resulted in the Company recording net increases in revenues of \$6.9 million and \$4.6 million during the fiscal years ended September 30, 2018 and September 30, 2017, respectively.

The accuracy of revenues and cost of revenues reported on the consolidated financial statements depends on, among other things, management's estimates of total costs to complete projects. Management believes the Company maintains reasonable estimates based on prior experience; however, many factors contribute to changes in estimates of contract costs. Accordingly, estimates made with respect to uncompleted projects are subject to change as each project progresses and better estimates of contract costs become available. All contract costs are recorded as incurred, and revisions to estimated total costs are reflected as soon as the obligation to perform is determined. Provisions are recognized for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue, regardless of the stage of completion. When the Company incurs additional costs related to work performed by subcontractors, the Company may have contractual provisions to back charge the subcontractors for those costs. A reduction to costs related to back charges is recognized when the estimated recovery is probable and the amount can be reasonably estimated.

Contract costs include direct labor and material, subcontractors, direct overhead costs and equipment costs (primarily depreciation, fuel, maintenance and repairs).

Fair Value Measurements

Management applies fair value measurement guidance to its impairment analyses for tangible and intangible assets. The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are classified using the following hierarchy:

Level 1. Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3. Inputs are unobservable for the asset or liability and include situations in which there is little, if any, market activity for the asset or liability. The inputs used in the determination of fair value are based upon the best information available under the circumstances and may require significant management judgment or estimation.

The Company endeavors to utilize the best available information in measuring fair value.

The Company's financial instruments include cash, contracts receivable including retainage, and accounts payable reflected as current assets and current liabilities on its Consolidated Balance Sheets at September 30, 2018 and September 30, 2017. Due to the short-term nature of these instruments, management considers their carrying value to approximate their fair value.

The Company also has term loans and a revolving credit facility as described in Note 12 - Debt. The carrying value of amounts outstanding under these credit facilities is reflected as long-term debt, net of current maturities and current maturities of debt on the Company's Consolidated Balance Sheets at September 30, 2018 and September 30, 2017. Due to the variable rate or short-term nature of these instruments, management considers their carrying value to approximate their fair value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements for operating leases are amortized over the lesser of the term of the related lease or the estimated useful lives of the improvements. Quarry reserves are depleted in accordance with the units-of-production method as aggregate is extracted, using the initial allocation of cost based on proven and probable reserves. Routine repairs and maintenance are expensed as incurred. Asset improvements are capitalized at cost and amortized over the remaining useful life of the related asset.

The useful lives of property, plant and equipment categories are as follows:

Category	Estimated Useful Life
Land and improvements	Land, unlimited; improvements, 15-25 years
Quarry reserves	Based on depletion
Buildings	5 - 39 years
Asphalt plants	3 - 20 years
Construction equipment	3 - 10 years
Furniture and fixtures	5 - 10 years
Leasehold improvements	The shorter of 15 years or the remaining lease term

Management periodically assesses the estimated useful life over which assets are depreciated, depleted or amortized. If the analysis warrants a change in the estimated useful life of property, plant and equipment, management will reduce the estimated useful life and depreciate, deplete or amortize the carrying value prospectively over the shorter remaining useful life.

The carrying amounts of assets sold or retired and the related accumulated depreciation are eliminated in the period of disposal, and the resulting gains and losses are included in the results of operations during the same period.

Impairment of Long-Lived Assets

The carrying value of property, plant and equipment and intangible assets subject to amortization is evaluated whenever events or changes in circumstances indicate that the carrying amount of such assets, or an asset group, may not be recoverable. Events or circumstances that might cause management to perform impairment testing include, but are not limited to, a significant decrease in the market price of an asset, a significant adverse change in the extent or manner in which an asset is used or in its physical condition, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of an asset, an operating or cash flow performance combined with a history of operating or cash flow losses or a forecast that demonstrates continuing losses associated with the use of an asset, and an expectation that an asset will be disposed of significantly before the end of its previously estimated useful life. If indicators of potential impairment are present, management performs a recoverability test and, if necessary, records an impairment loss. If the total estimated future undiscounted cash flows to be generated from the use and ultimate disposition of an asset or asset group is less than its carrying value, an impairment loss is recorded in the Company's results of operations, measured as the amount required to reduce the carrying value to fair value. Fair value is determined in accordance with the best available information based on the hierarchy described under "Fair Value Measurements" above. For example, the Company would first seek to identify quoted prices or other observable market data. If observable data is not available, management would apply the best available information under the circumstances to a technique such as a discounted cash flow model to estimate fair value. Impairment analysis involves estimates and the use of assumptions in connection with judgments made in forecasting long-term estimated inflows and outflows resulting from the use and ultimate disposition of an asset, and determining the ultimate useful lives of assets. Actual results may differ from these estimates using different assumptions, which could materially impact the results of an impairment assessment.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed in a business combination. Other intangible assets consist of an indefinite-lived name license in connection with a business acquired, and finite-lived assets including a non-compete agreement, customer relationships and construction backlog, each acquired in business acquisitions. Goodwill and indefinite-lived intangible assets are not amortized, but are reviewed for impairment at least annually, or more frequently when events or changes in circumstances indicate that the carrying value may not be recoverable. In addition, management evaluates whether events and circumstances continue to support an indefinite useful life. Judgments regarding indicators of potential impairment are based on market conditions and operational performance of the business.

Annually, on the first day of the fourth fiscal quarter, management performs an analysis of the carrying value of goodwill at its reporting units for potential impairment. In accordance with GAAP, the Company may assess its goodwill for impairment initially using a qualitative approach to determine whether conditions exist to indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. If management concludes, based on its assessment of relevant events, facts and circumstances, that it is more likely than not that a reporting unit's carrying value is greater than its fair value, then a quantitative analysis will be performed to determine whether there is any impairment. The Company may also elect to initially perform a quantitative analysis instead of starting with a qualitative assessment. The quantitative assessment for goodwill requires comparing the carrying value of a reporting unit, including goodwill, to its fair value using the multiple period discounting method under the income approach and market approach. The income approach uses a discounted cash flow model, which involves significant estimates and assumptions, including preparation of revenues and profitability growth forecasts, selection of a discount rate, and selection of a terminal year multiple, to estimate fair value. Management's assessment of facts and circumstances at each analysis date could cause these assumptions to change. If the fair value of the respective reporting unit exceeds its carrying amount, goodwill is not considered to be impaired, and no further testing is required. If the carrying amount of a reporting unit exceeds its fair value, an impairment charge is recorded to write down goodwill to its fair value and is recorded in the Company's results of operations. The Company performed a quantitative analysis of goodwill during fiscal year 2018 and fiscal year 2017 and determined that the fair value of each of its reporting units exceeded its carrying value, and thus concluded that the carrying value of goodwill was not impaired at September 30, 2018 or September 30, 2017. Accordingly, no further analysis was required or performed.

Management also performs an annual assessment, on the first day of the fiscal fourth quarter, of the carrying value of its indefinite-lived intangible assets other than goodwill. Management tests indefinite-lived intangible assets for impairment by comparing their carrying value to their estimated fair value. An impairment loss is recorded in the Company's results of operations to the extent the carrying value of an indefinite-lived intangible asset exceeds its fair value. Similar to the assessment of goodwill, events and changes in circumstances could cause management to utilize different assumptions in subsequent evaluations, which could materially impact the results of an impairment assessment. Management concluded that the carrying value of the Company's indefinite-lived intangible asset other than goodwill was not impaired at September 30, 2018 or September 30, 2017.

Deferred Debt Issuance Costs

Costs directly associated with obtaining debt financing are deferred and amortized over the term of the related debt agreement. Unamortized amounts related to long-term debt are reflected on the Consolidated Balance Sheet as a direct deduction from the carrying amount of the related long-term debt liability.

Equity Issuance Costs

The Company capitalizes certain third-party fees that are directly associated with in-process equity offerings. These amounts are recorded as prepaid expenses and included in other current assets on the Consolidated Balance Sheet until the offering is consummated, suspended or abandoned. If efforts to complete an equity offering are suspended or abandoned, the capitalized costs are charged to general and administrative expenses in the period the offering is suspended or abandoned. When an offering is completed, the capitalized costs are recorded as a reduction to additional paid-in capital generated by the offering. At September 30, 2017, \$2.2 million of capitalized equity issuance costs were included in other current assets. Upon the successful completion of the IPO in May 2018, the equity issuance costs balance of \$6.3 million was reclassified from prepaid expenses to additional paid-in capital.

Comprehensive Income

Comprehensive income is a measure of net income and all other changes in equity that result from transactions other than transactions with stockholders. Management has determined that net income is the Company's only component of comprehensive income. Accordingly, there is no difference between net income and comprehensive income.

Income Taxes

The provision for income taxes includes federal and state income taxes. Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying values and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which the temporary differences are expected to be reversed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management evaluates the realization of deferred tax assets and establishes a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized. Deferred tax assets and deferred tax liabilities are presented on a net basis by taxing authority and classified as non-current on the Consolidated Balance Sheet. The Company classifies income tax-related interest and penalties as interest expense and other expenses, respectively.

Equity-based Incentive Plans

Compensation costs related to equity-classified share-based awards are recognized on the consolidated financial statements based on grant date fair value. Compensation cost for graded-vesting awards is recognized ratably over the respective vesting periods.

Accrued Insurance Costs

The Company carries insurance policies to cover various risks, including primarily general liability, automobile liability and workers' compensation, under which it is liable to reimburse the insurance company for a portion of each claim paid. The amount for which the Company is liable for general liability, automobile liability and workers' compensation claims ranges from \$100,000 to \$500,000 per occurrence. Management accrues for probable losses, both reported and unreported, that are reasonably estimable using actuarial methods based on historic trends modified, if necessary, by recent events. Changes in loss assumptions caused by changes in actual experience would affect the assessment of the ultimate liability and could have an effect on the Company's operating results and financial position up to \$500,000 per occurrence for general liability, automobile liability and workers' compensation claims.

The Company provides employee medical insurance under policies that are both fixed-premium, fully-insured policies and self-insured policies that are administered by the insurance company. Under the self-insured policies, the Company is liable to reimburse the insurance company for actual claims paid plus an administrative fee. The Company purchases separate stop-loss insurance that limits the individual participant claim loss to amounts ranging from \$75,000 to \$160,000.

In addition to the retention items noted above, the Company's insurance provider requires the Company to maintain a standby letter of credit. This letter of credit serves as a guarantee by the banking institution to pay the Company's insurance provider the incurred claim costs attributable to general liability, workers' compensation and automobile liability claims, up to the amount stated in the standby letter of credit, in the event that these claims are not paid by the Company.

Earnings per Share

As described in Note 2 – Initial Public Offering, the Company completed an IPO and Reclassification of its common stock during the fiscal year ended September 30, 2018. Prior to the Reclassification, all net income of the Company was attributable to the holders of shares of common stock immediately prior to the Reclassification. During the period beginning from the Reclassification through the IPO, all net income of the Company was attributable to holders of Class B common stock. Since the IPO, all net income of the Company is attributable equally, on a per share basis, to the holders of Class A common stock and Class B common stock.

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of aggregate shares of pre-Reclassification common stock, Class A common stock and Class B common stock, as applicable for the

respective periods, calculated on a post-split basis, during the respective periods. The calculation of basic earnings per share excludes shares of unvested restricted stock. Diluted earnings per share is calculated by dividing net income attributable to common stockholders by the weighted average number of aggregate shares of pre-Reclassification common stock, Class A common stock, Class B common stock and potential dilutive common shares determined using the treasury method, calculated on a post-split basis as applicable for the respective periods. Securities that are anti-dilutive are not included in the calculation of diluted earnings per share.

Segment Reporting and Reporting Units

The Company operates in Alabama, Florida, Georgia, North Carolina and South Carolina through its wholly owned legal entity subsidiaries. Each of these entities was acquired as a platform operating company and performs essentially the same operations, primarily infrastructure and road construction.

Management determined that the Company functions as a single operating segment, and thus reports as a single reportable segment. This determination is based on rules prescribed by GAAP applied to the manner in which management operates the Company. In particular, management assessed the discrete financial information routinely reviewed by the Company's Chief Operating Decision Maker ("CODM"), its Chief Executive Officer, to monitor the Company's operating performance and support decisions regarding allocation of resources to its operations. Specifically, performance is continuously monitored at the consolidated level and at the individual contract level to timely identify deviations from expected results. Resource allocations are based on the capacity of the Company's operating facilities to pursue new project opportunities, including reallocation of assets that are underutilized from time to time at a certain operating facility to another operating facility where additional resources might be required to fully meet demand. Other factors further supporting this conclusion include substantial similarities throughout all of the Company's operations with respect to services provided, type of customers, sourcing of materials and manufacturing and delivery methodologies.

Management further determined that the Company's five platform operating companies represent the Company's reporting units for purposes of assessing potential impairment of goodwill. These legal entities represent significant acquisitions that occurred over time in Alabama, Florida, Georgia and North Carolina pursuant to the Company's strategic growth strategy. Each platform company is managed by its president, who has primary responsibility for the respective operating company. Collectively, these presidents are directly accountable to, and maintain regular contact with, the CODM as a team to discuss operating activities, financial results, forecasts, and operating plans for the Company's single operating segment.

Note 4 - Accounting Standards

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairments*, which applies to entities that have goodwill reported in their financial statements. The amendments of this update modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Prior to the amendments of this guidance, an entity performed the first step of the goodwill impairment test by comparing the fair value of a reporting unit to its carrying amount. If an impairment loss was indicated, the entity computed the implied fair value of goodwill to determine the amount of an impairment loss, if any (step two). Implied fair value of goodwill was calculated by assigning the fair value of a reporting unit to all of its assets and liabilities in a manner consistent with procedures performed as if that reporting unit had been acquired in a business combination. An entity still has the option to perform the qualitative assessment for a reporting unit to determine whether a quantitative impairment test is necessary. If a quantitative test is performed, this guidance eliminates step two of the assessment. In contrast, under the amendments of this update, an entity shall recognize an impairment charge in the amount by which the carrying amount exceeds the reporting unit's fair value, limited to the total amount of goodwill allocated to that reporting unit. The new guidance is effective for public companies for fiscal years beginning after December 15, 2019 and interim periods within those years, and shall be applied on a prospective basis to goodwill impairment tests subsequent to adoption of the standard. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company early adopted this guidance on a prospective basis on July 1, 2018. The adoption of this guidance did not have an impact on the Company's consolidated financial statements and related disclosures. See Note 10 – Goodwill and Other Intangible Assets, for additional information on the Company's goodwill.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. Amendments of this update change the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. The guidance also allows the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance permits a policy election to account for forfeitures as they occur rather than on an estimated basis, as is currently required. The Company adopted the amendments of the update effective October 1, 2017. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements and disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

The FASB has issued certain ASUs that are applicable to the Company and will be adopted in future periods. The consolidated financial statements and related disclosures for the fiscal years ended September 30, 2018 and September 30, 2017 do not reflect the requirements of this guidance. The following is a brief description of the recently issued ASUs and management's current assessment regarding the methods, timing and impact of adoption of such ASUs by the Company in the future.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments of this update refine the definition of a business. Prior to this update, guidance in Topic 805 defined a business as having an integrated set of assets along with three elements or activities: inputs, processes, and outputs (collectively referred to as a "set"). The amendments of this update provide a framework to assist entities in evaluating when a set is not a business. Amendments of this update are applicable to public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. This update shall be applied prospectively on or after the effective date. No disclosures are required at transition. The Company will adopt this update for the Company's fiscal year beginning October 1, 2018 and apply the guidance to the assessment and disclosure of future acquisition transactions.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments of this update provide guidance on eight cash flow classification issues: debt prepayment and debt extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The amendments of this update are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. Management is currently assessing this guidance to determine the Company's adoption date and the potential impact of adoption on the Company's consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments of this guidance require a lessee to recognize most leases on its balance sheet and recognize expenses on the income statement in a manner similar to current practice. The lessee will recognize a lease liability calculated as the present value of its obligation to make lease payments and a right-to-use asset for the right to use the underlying assets for the lease term. Leases will continue to be classified as either financing or operating. Operating leases will result in a single lease cost allocated over the lease term on a straight-line basis with cash payments presented as cash flows from operations. Financing leases will result in separate presentations of interest expense on the lease liability and amortization expense of the right-to-use asset, with repayments of the principal portion of the lease liability presented as financing activities and payments of interest on the lease liability and variable lease payments presented as operating activities. The amendments of this update are effective for public companies in annual periods beginning on or after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company leases office premises and equipment as described in Note 19 - Commitments and Contingencies. Management expects to adopt this ASU for the Company's fiscal year beginning October 1, 2019, and is currently evaluating this guidance to determine the potential impact of adoption on the Company's consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which revises and consolidates current guidance, eliminates industry-specific revenue recognition guidance and establishes a comprehensive principle-based approach for determining revenue recognition. The core principle of the guidance is that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for providing those goods or services. Amendments of this update set forth a five-step revenue recognition model to be applied consistently to all contracts with customers, except those that are within the scope of other topics in the ASC: identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligation in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation. The update also provides guidance regarding the recognition of costs related to obtaining and fulfilling customer contracts. This update also requires quantitative and qualitative disclosures sufficient to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including disclosures on significant judgments made when applying the guidance.

Subsequent to the issuance of ASU 2014-09, the FASB issued the following pronouncements, which each amend ASU No. 2014-09: ASU 2015-14 deferred the effective date of ASU 2014-09 from annual and interim periods beginning after December 15, 2016 to annual and interim periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. With the issuance of ASU No. 2016-08 in March 2016, the FASB clarified the implementation guidance on principal versus agent considerations in ASC 606. In April 2016, the FASB issued ASU No. 2016-10, which clarified implementation guidance on identifying performance obligations and licensing in ASC

606. Other provisions of the guidance in ASC 606 were also amended with the issuances of ASU No. 2016-12 in May 2016 and ASU No. 2016-20 in December 2016.

The update permits adoption using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative adjustment to the opening balance of retained earnings for contracts that still require performance by the entity at the date of adoption.

Management will adopt this update for the Company's fiscal year beginning October 1, 2018, using the modified retrospective approach. As a result, the Company will present any cumulative effect of applying the amendments of this update on the date of adoption, October 1, 2018. Management does not expect the adoption of this update to have a material impact on the Company's consolidated financial statements.

The Company has refined its accounting policies and related internal controls affected by this update. Management's assessment of the Company's construction contracts under the new standard supports the recognition of revenue over time using the percentage-of-completion method of accounting, measured by the relationship of total cost incurred to total estimated contract costs (cost-to-cost method), which is consistent with the Company's current revenue recognition practices. As such, the Company's construction contracts will continue to be recognized over time considering the continuous transfer of control to its customers during performance of construction projects. The amendments of this update also require expanded disclosures regarding the nature, timing and uncertainty of revenue and customer contract balances, including how and when the Company satisfies the performance obligations and the relationship between revenue recognized and changes in contract balances during a reporting period. The Company has evaluated these disclosure requirements and is incorporating the collection of supporting data into its business processes.

Note 5 - Business Acquisitions

The Scruggs Company

On May 15, 2018, the Company executed a stock purchase agreement (the "Stock Purchase Agreement") to complete the acquisition of 100% of the common shares and voting interests of The Scruggs Company ("Scruggs"), a privately-owned infrastructure and road construction company headquartered in Hahira, Georgia that operates three hot mix asphalt plants, three aggregate mines and one industrial plant (the "Scruggs Acquisition"). The Scruggs Acquisition complemented the Company's vertically integrated southeastern United States operations, providing new bidding areas in the expanding Georgia market. The Company funded the purchase price with cash on hand plus an additional \$22.0 million borrowed under its existing Compass Term Loan as described in Note 12 - Debt. The purchase price of \$51.3 million, excluding cash acquired of \$4.7 million, was paid in cash at closing.

This acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*.

Management completed the purchase price allocation for this acquisition during the fiscal year ended September 30, 2018. Identifiable assets acquired and liabilities assumed were recorded at their estimated fair values based on the methodology described under "Fair Value Measurements" in Note 3 - Significant Accounting Policies. The fair values of assets acquired and liabilities assumed, and the estimated useful lives of intangible assets acquired, are as follows (in thousands):

Contracts receivable including retainage	\$ 9,184
Costs and estimated earnings in excess of billings on uncompleted contracts	1,787
Inventory	4,323
Other current assets ⁽¹⁾	731
Property, plant and equipment:	
Construction equipment	17,571
Quarry reserves	13,986
Land and land improvements	7,302
Plant	6,917
Buildings	1,552
Backlog intangible ⁽²⁾	594
Customer relationship ⁽³⁾	1,100
Goodwill	2,319
Accounts payable	(3,646)
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,589)
Current maturities of long-term debt	(358)
Other current liabilities	(1,770)
Payable to seller	(4,940)
Long-term debt, net of current maturities	(744)
	<u>\$ 51,319</u>

⁽¹⁾ Other current assets excludes cash acquired

⁽²⁾ The estimated useful life of the backlog intangible asset is 17 months

⁽³⁾ The estimated useful life of the customer relationship intangible is 8 years

The amount of the purchase price exceeding the net fair value of identifiable assets acquired and liabilities assumed was recorded as goodwill. Under the terms of the Stock Purchase Agreement, the parties made a Section 338(h)(10) election under the Internal Revenue Code. Accordingly, goodwill, the backlog intangible and customer relationship intangible assets allocated to the purchase price and the step-up to fair value of property, plant and equipment reflected in the acquisition date balance sheet are deductible by the Company for income tax purposes. Goodwill primarily represents the assembled work force and synergies expected to result from the acquisition. Management has determined that Scruggs represents a new reporting unit for purposes of assessing potential impairment of goodwill, and has allocated all goodwill recognized in connection with the acquisition to that new reporting unit. Scruggs represents the Company's fifth platform operating company and functions one level below the Company's single operating segment, along with its other platform operating companies each representing reporting units.

The Consolidated Statement of Income for the fiscal year ended September 30, 2018 includes \$35.8 million of revenue and \$3.5 million of net income attributable to operations of Scruggs since the acquisition date of May 15, 2018. The Company recorded certain costs to effect the Scruggs Acquisition as they were incurred, which are reflected as general and administrative expenses on the Consolidated Statement of Income in the amount of \$0.2 million for the fiscal year ended September 30, 2018. The following presents pro forma revenues and net income as though the Scruggs Acquisition had occurred on October 1, 2016 (unaudited, in thousands):

	For the Fiscal Year Ended September 30,	
	2018	2017
Pro forma revenues	\$ 735,197	\$ 661,979
Pro forma net income	55,558	34,671

Pro forma financial information is presented as if the operations of Scruggs had been included in the consolidated results of the Company since October 1, 2016, and gives effect to transactions that are directly attributable to the Scruggs Acquisition, including adjustments to:

- (a) Include the pro forma results of operations of Scruggs for the fiscal years ended September 30, 2018 and 2017.
- (b) Include additional depreciation and depletion expense related to the fair value of acquired property, plant and equipment and quarry reserves, as applicable, as if such assets were acquired on October 1, 2016 and consistently applied to the Company's depreciation and depletion methodologies.
- (c) Include interest expense under the Compass Term Loan as if the \$22.0 million borrowed to partially finance the purchase price was borrowed on October 1, 2016. Interest expense calculations further assume that no principal payments were made applicable to the \$22.0 million borrowed during the period from October 1, 2016 through September 30, 2018, and that the interest rate in effect on the date the Company made the additional \$22.0 million borrowing on May 15, 2018 was in effect for the period from October 1, 2016 through September 30, 2018.
- (d) Exclude \$0.2 million of acquisition-related expenses from the fiscal year ended September 30, 2018, as though such expenses were incurred prior to the pro forma acquisition date of October 1, 2016.

Pro forma information is presented for informational purposes and may not be indicative of revenue or net income that would have been achieved if the Scruggs acquisition had occurred on October 1, 2016.

Sand and Gravel Mining Operations

On September 22, 2017, the Company acquired certain ongoing sand and gravel mining operations located in Etowah, Elmore and Autauga counties in Alabama in order to expand our aggregate production facilities. This acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*. Consideration paid to consummate the acquisition consisted of \$10.8 million cash paid on the closing date. The Company also entered into a purchase commitment with the seller to purchase \$3.1 million of inventory over the two years following the acquisition. Of that amount, \$2.3 million had been purchased as of September 30, 2018.

Identifiable assets acquired and liabilities assumed were recorded at their estimated fair values based on the methodology described under "Fair Value Measurements" in Note 3 - Significant Accounting Policies. The amount of consideration paid in excess of the fair value of net assets acquired is recorded as goodwill, which is deductible for income tax purposes. The following summarizes the fair value of identifiable assets acquired (in thousands):

Inventory	\$ 1,179
Quarry reserves	4,800
Land	1,746
Plant	1,247
Equipment	1,228
Goodwill	643
	<u>\$ 10,843</u>

The results of operations associated with this acquisition are included in the consolidated financial statements since the acquisition date and were not material to the Consolidated Statements of Income. Pro forma results of operations as if the acquisition had been consummated on October 1, 2015 would not be material to the Consolidated Statements of Income.

Note 6 - Contracts Receivable Including Retainage, net

Contracts receivable including retainage, net consisted of the following at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Contracts receivable	\$ 104,541	\$ 109,538
Retainage	16,848	13,180
	<u>121,389</u>	<u>122,718</u>
Allowance for doubtful accounts	(1,098)	(1,734)
Contracts receivable including retainage, net	<u>\$ 120,291</u>	<u>\$ 120,984</u>

The following is a summary of changes in the allowance for doubtful accounts balance during the fiscal years ended September 30, 2018 and September 30, 2017 (in thousands):

	For the Fiscal Year Ended September 30,	
	2018	2017
Balance at beginning of period	\$ 1,734	\$ 1,039
Charged to bad debt expense	604	1,445
Write-off of contracts receivable including retainage	(1,240)	(750)
Balance at end of period	<u>\$ 1,098</u>	<u>\$ 1,734</u>

Retainage receivables have been billed, but are not due until contract completion and acceptance by the customer.

Note 7 - Costs and Estimated Earnings on Uncompleted Contracts

Costs and estimated earnings compared to billings on uncompleted contracts at September 30, 2018 and September 30, 2017 consisted of the following (in thousands):

	September 30,	
	2018	2017
Costs on uncompleted contracts	\$ 743,322	\$ 489,661
Estimated earnings to date on uncompleted contracts	95,155	62,193
	838,477	551,854
Billings to date on uncompleted contracts	(867,881)	(579,370)
Net billings in excess of costs and estimated earnings on uncompleted contracts	<u>\$ (29,404)</u>	<u>\$ (27,516)</u>

Reconciliation of net billings in excess of costs and estimated earnings to amounts reflected on the Company's Consolidated Balance Sheets at September 30, 2018 and September 30, 2017 is follows (in thousands):

	September 30,	
	2018	2017
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 9,334	\$ 4,592
Billings in excess of costs and estimated earnings on uncompleted contracts	(38,738)	(32,108)
Net billings in excess of costs and estimated earnings on uncompleted contracts	<u>\$ (29,404)</u>	<u>\$ (27,516)</u>

Note 8 - Other Assets

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Settlement receivable	\$ 7,874	\$ —
Prepaid expenses	4,989	1,503
Other current assets	1,274	3,017
Total prepaid expenses and other current assets	<u>\$ 14,137</u>	<u>\$ 4,520</u>

Other Assets

Other assets consisted of the following at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Settlement receivable	\$ 7,224	\$ —
Notes receivable	2,561	1,106
Other assets	485	1,377
Total other assets	<u>\$ 10,270</u>	<u>\$ 2,483</u>

Note 9 - Property, Plant and Equipment

Property, plant and equipment at September 30, 2018 and September 30, 2017 consisted of the following (in thousands):

	September 30,	
	2018	2017
Construction equipment	\$ 190,420	\$ 154,911
Asphalt plants	79,563	66,379
Land and improvements	29,624	20,991
Quarry reserves	20,908	7,219
Buildings	12,416	9,848
Furniture and fixtures	4,422	3,870
Leasehold improvements	765	765
Total property, plant and equipment, gross	338,118	263,983
Accumulated depreciation, depletion and amortization	(160,795)	(148,072)
Construction in progress	1,369	—
Total property, plant and equipment, net	\$ 178,692	\$ 115,911

Depreciation, depletion and amortization expense related to property, plant and equipment for the fiscal years ended September 30, 2018 and September 30, 2017 was \$24.8 million and \$20.8 million, respectively.

Note 10 - Goodwill and Other Intangible Assets

The following presents goodwill activity during the fiscal years ended September 30, 2018 and September 30, 2017 (in thousands):

Balance at September 30, 2016	\$ 29,957
Additions	643
Balance at September 30, 2017	30,600
Additions	2,319
Balance at September 30, 2018	\$ 32,919

A summary of other intangible assets at September 30, 2018 and September 30, 2017 is as follows (in thousands):

	Useful Life	September 30,					
		2017			2018		
		Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
Indefinite-lived:							
License	Indefinite	\$ 2,000	\$ —	\$ 2,000	\$ 2,000	\$ —	\$ 2,000
Definite-lived:							
Customer relationship	8 years	—	—	—	1,100	(52)	1,048
Acquired construction backlog	17 months	—	—	—	594	(157)	437
Non-compete agreements	5 years	1,500	(950)	550	1,500	(1,250)	250
Total intangible assets		\$ 3,500	\$ (950)	\$ 2,550	\$ 5,194	\$ (1,459)	\$ 3,735

Total amortization expense related to definite-lived intangible assets was \$0.5 million and \$0.3 million for the fiscal years ended September 30, 2018 and September 30, 2017, respectively.

Estimated future total amortization expense related to definite-lived intangible assets is as follows (in thousands):

Fiscal Year	Estimated Amortization Expense
2019	\$ 825
2020	138
2021	138
2022	138
2023	138
Thereafter	358
Total	\$ 1,735

Note 11 - Liabilities

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Accrued payroll and benefits	12,802	13,364
Treasury stock purchase obligation	569	2,569
Accrued insurance costs	1,750	1,198
Other current liabilities	2,399	2,905
Total accrued expenses and other current liabilities	\$ 17,520	\$ 20,036

Other Long-Term Liabilities

Other long-term liabilities consisted of the following at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Treasury stock purchase obligation	\$ —	\$ 569
Accrued insurance costs	4,826	3,796
Other	469	655
Total other long-term liabilities	\$ 5,295	\$ 5,020

Note 12 - Debt

The Company maintains various credit facilities from time to time to finance acquisitions, the purchase of real estate, construction equipment, asphalt plants and other fixed assets, and for general working capital purposes. Debt at September 30, 2018 and September 30, 2017 consisted of the following (in thousands):

	September 30,	
	2018	2017
Long-term debt:		
Compass Term Loan	\$ 57,300	\$ 47,500
Compass Revolving Credit Facility	5,000	10,000
Other long-term debt	964	—
Total long-term debt	63,264	57,500
Deferred debt issuance costs	(362)	(364)
Debt discount	(14)	—
Current maturities of long-term debt	(14,773)	(10,000)
Long-term debt, net of current maturities	\$ 48,115	\$ 47,136

Compass Credit Agreement

On June 30, 2017, Construction Partners Holdings, Inc. (“Construction Partners Holdings”), the Company’s wholly owned subsidiary, entered into a credit agreement with Compass Bank as agent, sole lead arranger and sole bookrunner (as amended, the “Compass Credit Agreement”), providing for a \$50.0 million term loan (the “Compass Term Loan”) and a \$30.0 million revolving credit facility (the “Compass Revolving Credit Facility”). The Compass Credit Agreement was used to refinance all existing long-term and short-term debt, as described below. In connection with the Scruggs Acquisition, the Company amended the Compass Credit Agreement on May 15, 2018 and borrowed an additional \$22.0 million under the Compass Term Loan to fund a portion of the purchase price as disclosed in Note 5 - Business Acquisitions. The principal amount of the Compass Term Loan, including the additional borrowing, must be paid in quarterly installments of \$3.6 million. All amounts borrowed under the Compass Credit Agreement mature on July 1, 2022.

Construction Partners Holdings’ obligations under the Compass Credit Agreement are guaranteed by the Company and all of Construction Partners Holdings’ direct and indirect subsidiaries and are secured by a first priority security interest in substantially all of the Company’s assets.

Under the Compass Credit Agreement, borrowings can be designated as base rate loans or Euro-Dollar Loans. The interest rate on base rate loans fluctuates and is equal to (i) the highest of: (a) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate,” (b) the federal funds rate plus 0.50% and (c) the quotient of the London Interbank Offered Rate (“LIBOR”) for deposits in U.S. dollars as obtained from Reuters, Bloomberg or another commercially available source designated by the Agent two Euro-Dollar Business Days (as defined in the Compass Credit Agreement) before the first day of the applicable interest period divided by 1.00 minus the Euro-Dollar Reserve Percentage (as defined in the Compass Credit Agreement) plus 1.0% for a one-month interest period, plus (ii) the applicable rate, which ranges from 2.0% to 2.25%. The interest rate for Euro-Dollar loans fluctuates and is equal to the sum of the applicable rate, which ranges from 2.0% to 2.25%, plus LIBOR for the interest period selected by the Agent. In order to economically hedge against changes in interest rates, on June 30, 2017, the Company entered into an interest rate swap agreement with a notional amount of \$25.0 million, under which the Company pays a fixed percentage rate of 2.015% and receives a credit based on the applicable LIBOR rate. In connection with amendments to the Compass Credit Agreement and the additional borrowing on May 15, 2018, the Company entered into an additional \$11.0 million notional interest rate swap agreement applicable to the \$22.0 million additional debt under the Compass Term Loan. Under this additional interest rate swap agreement, the Company pays a fixed percentage rate of 3.01% and receives a credit based on the applicable LIBOR rate. These interest rate swap agreements do not meet the criteria for hedge accounting treatment in accordance with GAAP. At September 30, 2018 and September 30, 2017, the aggregate notional value of these interest rate swap agreements was \$28.7 million and \$23.8 million, respectively, and the fair value was \$0.3 million and \$(0.2) million, respectively, which is included within other assets or other liabilities on the Company’s Consolidated Balance Sheets.

Construction Partners Holdings must pay a commitment fee of 0.35% per annum on the aggregate unused revolving commitments under the Compass Credit Agreement, as well as fees with respect to any letters of credit issued under the Compass Credit Agreement.

The Compass Credit Agreement contains usual and customary negative covenants for agreements of this type, including, but not limited to, restrictions on Construction Partners Holdings’ ability to make acquisitions, make loans or advances, make capital

expenditures and investments, create or incur indebtedness, create liens, wind up or dissolve, consolidate, merge or liquidate, or sell, transfer or dispose of assets. The Compass Credit Agreement requires Construction Partners Holdings to satisfy certain financial covenants, including a minimum fixed charge coverage ratio of 1.20 to 1.00. The Compass Credit Agreement also requires the Company to maintain a maximum consolidated leverage ratio of 2.00 to 1.00, subject to certain adjustments, as further described in the Compass Credit Agreement. The Compass Credit Agreement includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, certain changes of control, material money judgments and failure to maintain subsidiary guarantees. The Compass Credit Agreement prevents Construction Partners Holdings from paying dividends or otherwise distributing cash to the Company unless, after giving effect to such dividend, Construction Partners Holdings would be in compliance with the financial covenants and, at the time any such dividend is paid, no default or event of default exists or would result from the payment of such dividend. At September 30, 2018, the Company was in compliance with all covenants under the Compass Credit Agreement.

Acquired Debt

In connection with the Scruggs Acquisition, the Company assumed \$1.1 million of debt, representing loans used to finance equipment purchases and collateralized by the purchased equipment. These loans are reflected as other long-term debt in the table above at September 30, 2018. Assumed debt includes three zero-interest notes payable that were used to finance equipment purchases and are collateralized by the purchased equipment. The aggregate estimated fair value of these zero-interest loans at the acquisition date was \$0.4 million, determined in accordance with the methodology described under "Fair Value Measurements" in Note 3 - Significant Accounting Policies, and are scheduled to be repaid via monthly payments with maturity dates between February 2020 and May 2020. The Company also assumed \$0.7 million of debt in connection with the Scruggs Acquisition, representing loans used to finance equipment with fixed interest rates ranging from 4.50% - 5.95%. These notes payable require monthly payments and have maturity dates ranging from 2019 through 2023.

CIT Credit Facility (repaid in full and terminated June 30, 2017)

On December 12, 2014, the Company and its wholly owned subsidiaries entered a credit agreement with a consortium of six financial institutions represented by CIT Finance LLC acting as Administrative Agent and Collateral Agent (the "CIT Credit Facility"). The \$76.0 million facility consisted of a \$49.0 million term loan (the "CIT Term Loan") and capacity for additional borrowings of \$27.0 million to finance future purchases of certain fixed assets. In connection with incurring this debt, the Company recorded \$2.3 million in deferred debt issuance costs, which were amortized to interest expense over the original term of the facility. At June 30, 2017, the remaining \$0.9 million unamortized balance of deferred debt issuance costs was recorded as a loss on extinguishment of debt upon repayment of the loan in conjunction with the refinancing described above.

The CIT Credit Facility bore interest at an annual rate of 3-month LIBOR plus 3.5% and was subject to certain payment restrictions and a mandatory prepayment provision if the aggregate balance outstanding to any borrower exceeded defined limits. Principal on the CIT Term Loan was payable quarterly at 3.125% of aggregate gross borrowings, with a final payment of the outstanding principal amount on December 12, 2019. On June 30, 2017, the Company repaid all outstanding principal and interest in the amount of \$32.0 million and terminated the CIT Credit Facility.

Capitala Term Loan (repaid in full and terminated June 30, 2017)

On December 12, 2014, the Company and certain of its subsidiaries entered into a second lien credit agreement with Capitala Finance Corp., which provided for a \$12.5 million interest-only term loan (the "Capitala Term Loan"). In connection with incurring this debt, the Company recorded \$1.4 million in deferred debt issuance costs, which were amortized to interest expense over the term of the Capitala Term Loan. At June 30, 2017, the remaining \$0.7 million unamortized balance of deferred debt issuance costs was recorded as a loss on extinguishment of debt upon repayment of the loan in conjunction with the refinancing described above.

The Capitala Term Loan bore interest at an annual rate of 11.5%, with 100% of the outstanding principal amount due on June 12, 2020. On June 30, 2017, the Company repaid all outstanding principal and interest in the amount of \$12.6 million and terminated the Capitala Term Loan.

Other Debt (repaid in full and terminated June 30, 2017)

During the fiscal year ended September 30, 2017, the Company repaid in full and terminated certain other term loans and revolving credit facilities. These loans were collateralized with the assets financed by the borrowings and included terms that varied for each facility, including interest rates ranging from 3.33% to 11.5% and maturities ranging from December 2016 through June 2020. On June 30, 2017, the Company repaid all outstanding principal and interest under these loans in the amount of \$10.1 million, and terminated all related agreements.

The scheduled contractual repayment terms of long-term debt at September 30, 2018 were as follows:

Fiscal Year	Amount
2019	\$ 14,773
2020	14,762
2021	14,555
2022	19,157
2023	17
Thereafter	—
Total	<u>\$ 63,264</u>

Interest expense was \$2.0 million and \$4.1 million for the fiscal years ended September 30, 2018 and September 30, 2017, respectively. Amortization of deferred issuance costs and debt discounts included in interest expense was \$0.1 million and \$0.7 million for the fiscal years ended September 30, 2018 and September 30, 2017, respectively.

Note 13 - Equity

At September 30, 2018 and September 30, 2017, the Company had authorized for issuance 10,000,000 and 1,000,000 shares of preferred stock, par value \$0.001, respectively. No preferred shares were issued and outstanding at September 30, 2018 or September 30, 2017.

At September 30, 2017, the Company had authorized for issuance 126,000,000 shares of common stock, par value per share \$0.001, of which 44,987,575 and 41,691,541 were issued and outstanding, respectively. At September 30, 2017, the Company held 3,296,034 shares in treasury, at an average cost of \$3.64 per share.

As described in Note 2 - Initial Public Offering, the Company executed an IPO and certain related transactions during the fiscal year ended September 30, 2018.

As described in Note 15 - Equity-Based Compensation, during the fiscal year ended September 30, 2018, employees holding options under the 2010 Non-Plan Stock Option Agreement exercised all options to purchase 768,984 shares of Class B common stock at an exercise price of \$5.70 per share. These shares were issued from treasury shares at an average cost of \$3.64 per share. The transaction was executed as a cashless exercise.

The following presents changes to the Company's outstanding shares of common stock, treasury shares and additional paid-in capital for the fiscal years ended September 30, 2018 and September 30, 2017 (dollars in thousands):

	Shares of Common Stock Outstanding	Shares of Class A Common Stock Outstanding	Shares of Class B Common Stock Outstanding	Additional Paid-in Capital	Treasury Shares	
					Shares	Cost
Balance, September 30, 2016	41,502,490	—	—	\$ 141,872	(3,485,085)	\$ (12,621)
Equity-based compensation expense	—	—	—	513	—	—
Sale of treasury stock	189,051	—	—	—	189,051	638
Balance, September 30, 2017	41,691,541	—	—	142,385	(3,296,034)	(11,983)
Sale of treasury stock	126,000	—	—	(453)	126,000	458
Reclassification of common stock	(41,817,541)	—	41,817,537	—	—	—
Conversion of Class B common stock to Class A common stock in connection with initial public offering of Class A common stock	—	2,600,000	(2,600,000)	—	—	—
Initial public offering of Class A common stock, net of offering costs	—	9,350,000	—	98,000	—	—
Cashless option exercise	—	—	247,082	1,586	247,082	(4,078)
Equity-based compensation expense	—	—	—	975	—	—
Balance, September 30, 2018	—	11,950,000	39,464,619	\$ 242,493	(2,922,952)	\$ (15,603)

On December 21, 2016, the Company's Board of Directors declared a special dividend to common stockholders of record as of the close of business on December 15, 2016 in the amount of \$31.3 million (\$0.754 per share). The dividend was paid from cash on hand on January 10, 2017. Management does not expect the Company to declare stock dividends in the foreseeable future; however, the Company's future dividend policy will depend upon earnings, financial condition, capital requirements and certain other factors, including terms of credit agreements that restrict the Company's ability to declare or pay dividends.

Note 14 - Earnings Per Share

As described in Note 2 - Initial Public Offering, the Company completed an IPO and Reclassification of common stock during the fiscal year ended September 30, 2018.

The following table summarizes the weighted-average number of basic common shares outstanding and the calculation of basic earnings per share for the periods presented (in thousands, except share and per share amounts):

	For the Fiscal Year Ended September 30,	
	2018	2017
Numerator		
Net income attributable to common shareholders	\$ 50,791	\$ 26,040
Denominator		
Weighted average number of common shares outstanding, basic	45,605,845	41,550,293
Net income per common share attributable to common shareholders, basic	\$ 1.11	\$ 0.63

The following table summarizes the calculation of the weighted-average number of diluted common shares outstanding and the calculation of diluted earnings per share for the periods presented (in thousands, except share and per share amounts):

	For the Fiscal Year Ended September 30,	
	2018	2017
Numerator		
Net income attributable to common stockholders	\$ 50,791	\$ 26,040
Denominator		
Weighted average number of basic common shares outstanding, basic	45,605,845	41,550,293
Effect of dilutive securities:		
2010 non-plan stock option agreement options	272,915	—
2018 restricted stock grants	40,888	—
Weighted average number of diluted common shares outstanding:	45,919,648	41,550,293
Net income per diluted common share attributable to common stockholders	\$ 1.11	\$ 0.63

The Company had 768,984 common stock equivalents that were excluded from the calculation of diluted earnings per share for the fiscal year ended September 30, 2017, since their inclusion would be anti-dilutive (see "2010 Non-Plan Stock Option Agreement" described in Note 15 - Equity-Based Compensation). There were no anti-dilutive securities excluded from the calculation of diluted earnings per share for the fiscal year ended September 30, 2018.

Note 15 - Equity-Based Compensation

Restricted Stock Awards

On February 23, 2018, the Company sold to certain employees a total of 126,000 restricted shares of common stock at a purchase price of \$0.04 per share. The Company recorded proceeds of \$5,000 from the sale of these restricted shares, which were issued from treasury shares. The Company recorded a reduction to additional paid-in capital of approximately \$0.5 million representing the cost of treasury shares issued in excess of the purchase price paid by the employees.

Half of the shares vested immediately on February 23, 2018, and the remaining half of the shares vested on July 1, 2018, upon the respective employees' continuous employment through the vesting date. The grant date fair value of the shares was estimated to be \$7.78 per share.

During the fiscal year ended September 30, 2018, the Company recorded compensation expense in connection with these grants in the amount of \$1.0 million, which is reflected as general and administrative expenses on the Company's Consolidated Statements of Income. At September 30, 2018, there was no unrecognized compensation expense related to these awards.

2017 Options

On March 7, 2017, the Company granted to a certain employee a non-plan option to purchase 74,592 shares of the Company's common stock at an exercise price of approximately \$0.04 per share. The option has an expiration date of March 7, 2027. The options are classified as equity awards. The grant date fair value was \$5.52 per share, calculated using the Black-Scholes option pricing model applied to the following inputs.

Risk-free rate	2.04%
Expected term (in years)	5
Expected volatility	50%
Expected dividend yield	0%
Value of underlying stock	\$ 5.56

The option vested 100% at the date of grant and is exercisable only during a change in control event as defined by the award, which has not occurred. Unrecognized compensation expense in connection with this option at September 30, 2018 was \$0.4 million. At

September 30, 2018, all 74,592 options were outstanding and vested. No portion of this option was exercisable or had intrinsic value at September 30, 2018 because a change of control event had not occurred through that date.

2016 Equity Incentive Plan

On August 22, 2016, the Company granted to certain employees options to purchase 252,000 shares of the Company's common stock with an exercise price of \$3.37 per share and an expiration date of August 22, 2026 pursuant to the Company's 2016 Equity Incentive Plan (the "2016 Equity Incentive Plan").

The options are classified as equity awards and do not contain performance conditions or market conditions. The grant date fair value was \$2.90 per share, calculated using the Black-Scholes option pricing model applied to the following inputs:

Risk-free rate	1.31%
Expected term (in years)	6
Expected volatility	50%
Expected dividend yield	0
Value of underlying stock	\$ 4.97

On May 8, 2017, all agreements evidencing options granted under the 2016 Equity Incentive Plan were modified to immediately vest all remaining unvested options outstanding. Accordingly, all remaining unrecognized compensation expense was recognized during that period. Total compensation expense recorded during the fiscal year ended September 30, 2017 in connection with these options was \$0.5 million and there was no unrecognized compensation expense related to these options at September 30, 2017. Accordingly, there was no compensation expense incurred in connection with these options during the fiscal year ended September 30, 2018, and there was no unrecognized compensation expense at September 30, 2018.

The following is a summary of changes to the number of unvested options under the 2016 Equity Incentive Plan during the fiscal years ended September 30, 2017 and September 30, 2018:

Unvested options outstanding at September 30, 2016	189,000
Granted	—
Vested	(189,000)
Forfeited	—
Unvested options outstanding at September 30, 2017	—
Granted	—
Vested	—
Forfeited	—
Unvested options outstanding at September 30, 2018	—

The intrinsic value of options exercised during the fiscal year ended September 30, 2017 was \$0.4 million. No options were outstanding under the 2016 Equity Incentive Plan at September 30, 2018 or September 30, 2017.

The following is a summary of activity related to options under the 2016 Equity Incentive Plan during the fiscal years ended September 30, 2018 and September 30, 2017:

Outstanding, September 30, 2016	189,050
Granted	—
Exercised	189,050
Forfeited or expired	—
Outstanding, September 30, 2017	—
Outstanding, September 30, 2018	—

The Company received proceeds of \$0.6 million from option holders upon exercises during the fiscal year ended September 30, 2017. Shares were issued from treasury shares.

2010 Non-Plan Stock Option Agreement

In June 2018, certain employees of the Company exercised options to purchase 768,984 shares of Class B common stock at an exercise price of \$5.70 per share. These options were granted in 2010 pursuant to a non-plan option agreement and were classified as equity awards. These shares were issued from treasury shares at an average cost of approximately \$3.64 per share. The transaction was executed as a cashless exercise through which the Company concurrently repurchased from the option holders the number of shares of Class B common stock required to fund the exercise price for all options and meet statutory federal, state and payroll tax withholding requirements applicable to the employees associated with their exercises. The Company purchased a total of 521,902 shares of Class B common stock, at the \$13.17 per share closing price of the Company's Class A common stock on the date of exercise, resulting in a net increase of 247,082 shares of Class B common stock outstanding. Of the aggregate repurchase price, the Company retained \$4.4 million which was recorded to additional paid-in capital reflecting the total exercise price, and withheld \$2.5 million which was submitted to taxing authorities for employees' payroll tax obligations.

Note 16 - Provision for Income Taxes

The Company files a consolidated United States income tax return and income tax returns in various states. Management evaluated the Company's tax positions based on appropriate provisions of applicable enacted tax laws and regulations and believes that they are supportable based on their specific technical merits and the facts and circumstances of the transactions.

The provision for income taxes for the fiscal years ended September 30, 2018 and September 30, 2017 consists of the following (in thousands):

	For the Fiscal Year Ended September 30,	
	2018	2017
Current		
U.S. Federal	\$ 9,380	\$ 11,977
State	1,626	1,900
Total current	<u>11,006</u>	<u>13,877</u>
Deferred		
U.S. Federal	(1,003)	711
State	522	154
Total deferred	<u>(481)</u>	<u>865</u>
Provision for income taxes	<u>\$ 10,525</u>	<u>\$ 14,742</u>

Differences exist between income and expenses reported on the consolidated financial statements and those deducted for U.S. Federal and state income tax reporting. The Company's deferred tax assets and liabilities consisted of the following temporary difference tax effects at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Deferred tax assets		
Allowance for bad debt	\$ 444	\$ 936
Amortization of finite-lived intangible assets	499	751
State net operating loss	1,695	1,928
Employee benefits	—	243
Accrued insurance claims	1,202	1,417
Other	—	506
Total deferred tax assets, net	3,840	5,781
Deferred tax liabilities		
Amortization of goodwill	(3,925)	(5,022)
Property, plant and equipment	(7,162)	(8,550)
Other	(63)	—
Total deferred tax liabilities, net	(11,150)	(13,572)
Net deferred tax assets (liabilities)	\$ (7,310)	\$ (7,791)

The Consolidated Balance Sheets at September 30, 2018 and September 30, 2017 include gross deferred tax assets of \$3.8 million and \$5.8 million, respectively. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which those temporary differences are deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected taxable income, and tax-planning strategies in making this assessment. Based on the weight of all evidence known and available as of the balance sheet date, management believes that these tax benefits are more likely than not to be realized in the future. To the extent that management does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

Income taxes payable have been reduced by fuel tax credits of \$0.3 million for each of the fiscal years ended September 30, 2018 and September 30, 2017. The remaining amount of goodwill expected to be deductible for tax purposes was \$14.9 million and \$15.3 million at September 30, 2018 and September 30, 2017, respectively.

The following is a reconciliation of net deferred tax assets (liabilities) to amounts reflected on the Company's Consolidated Balance Sheets at September 30, 2018 and September 30, 2017 (in thousands):

	September 30,	
	2018	2017
Asset: Deferred income taxes, net	\$ 1,580	\$ 1,876
Liability: Deferred income taxes, net	(8,890)	(9,667)
Net deferred tax assets (liabilities)	\$ (7,310)	\$ (7,791)

At September 30, 2018 and September 30, 2017, the Company had a state net operating loss carryforward of \$38.3 million and \$52.5 million, respectively. The state net operating loss credit carryforwards expire in varying amounts between the fiscal years ended September 30, 2020 and September 30, 2030.

The U.S. statutory income tax rate applicable to the Company was 35.0% during the fiscal year ended September 30, 2017. On December 22, 2017, the U.S. government enacted comprehensive tax legislation known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act included broad and complex changes to the U.S. tax code, including a reduction in the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company completed its accounting for the income tax effects of the Tax Act during fiscal 2018 and recorded a discrete tax benefit of \$4.6 million related to the Tax Act, primarily due to adjusting its U.S. deferred tax liabilities by the same amount, reflecting the reduction in the U.S. federal corporate tax rate. This net reduction in deferred tax liabilities also included the estimated impact on the Company's net state deferred tax assets. Accordingly, the Company recorded its

income tax provision for the fiscal year ended September 30, 2018 based on a blended U.S. statutory tax rate of 24.5%, which was based on a proration of the applicable tax rates before and after the effective date of the Tax Act, and the effect of applicable state income taxes. The federal statutory rate of 21% applies for fiscal years beginning after September 30, 2018. During the fiscal year ended September 30, 2018, the Company also realized a \$2.3 million permanent tax benefit, including \$1.4 million resulting from the deduction of the excess fair market value of options exercised under the 2010 Non-Plan Stock Option Agreement over the exercise price.

The following table reconciles income taxes based on the U.S. statutory tax rate to the Company's income before provision for income taxes for the fiscal years ended September 30, 2018 and September 30, 2017 (in thousands):

	For the Fiscal Year Ended September 30,	
	2018	2017
Provision for income tax at federal statutory rate	\$ 15,023	\$ 14,260
State income taxes	1,622	1,268
Change in deferred federal income taxes due to Tax Act	(4,552)	—
Permanent differences	(2,282)	(686)
Other	714	(100)
Provision for income taxes	<u>\$ 10,525</u>	<u>\$ 14,742</u>

Uncertain Tax Positions

ASC Topic 740, *Income Taxes* prescribes a recognition threshold and measurement model for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and provides guidance on derecognition classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company is subject to tax audits in various jurisdictions in the United States. Tax audits by their nature are often complex. In the normal course of business, the Company is subject to challenges from the Internal Revenue Service ("IRS") and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of the calculation of the provision for income taxes on earnings, management determines whether the benefits of the Company's tax positions are at least more likely than not to be sustained upon audit based on the technical merits of the tax position. For tax positions that are more likely than not to be sustained upon audit, management accrues the largest amount of the benefit that is more likely than not to be sustained. Such accruals require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates. The Company performed an analysis of its tax positions and determined that no uncertain tax positions existed at September 30, 2018 or 2017. Accordingly, there was no liability for uncertain tax positions at September 30, 2018 or September 30, 2017. Based on the provisions of ASC 740, the Company had no material unrecognized tax benefits at September 30, 2018 or September 30, 2017. Due to the utilization of net operating loss carryforwards, the Company's federal income tax returns for fiscal years ended September 30, 2012 through September 30, 2018 are subject to examination. Various state income tax returns for fiscal years ended September 30, 2011 through September 30, 2018 are also subject to examination.

Note 17 - Employee Benefit Plans

The Company offers a 401(k) retirement plan covering substantially all employees who are at least 18 years old and have more than one year of service. The Company makes discretionary employer contributions, subject to IRS safe harbor rules. Employer contributions charged to earnings during the fiscal years ended September 30, 2018 and September 30, 2017 were \$2.3 million and \$1.8 million, respectively.

Note 18 - Related Parties

On December 31, 2017, the Company sold a wholly owned subsidiary to an immediate family member of a Senior Vice President of the Company ("Purchaser of subsidiary") in consideration for a note receivable in the amount of \$1.0 million, which approximated the net book value of the disposed entity. In connection with this transaction, the Company also received a note receivable from the disposed entity ("Disposed entity") on December 31, 2017 in the amount of \$0.9 million representing certain accounts payable of the disposed subsidiary that were paid by the Company. At September 30, 2018, \$0.8 million and \$0.9 million, respectively, was reflected on the Company's Consolidated Balance Sheet representing the remaining balances on the consideration note receivable and accounts payable note receivable. Principal and interest payments are scheduled to be made in periodic installments from January 2018 through December 2023.

From time to time, the Company conducts business with the following related parties:

- On January 30, 2015, a subsidiary of the Company entered into a master services subcontract with Austin Trucking, LLC (“Austin Trucking”), an entity owned by an immediate family member of a Senior Vice President of the Company. Pursuant to the agreement, Austin Trucking performs subcontract work for the subsidiary of the Company, including trucking services.
- From time to time, a subsidiary of the Company provides construction services to various companies owned by a family member of a Senior Vice President of the Company (“Construction Services”).
- For periodic corporate events, the Company charters a boat from Deep South Adventures, LLC, which is owned by a Senior Vice President of the Company.
- On June 1, 2014, the Company entered into an access agreement with Island Pond Corporate Services, LLC (“Island Pond”) regarding certain property owned by the Chairman of the Company's Board of Directors who is also the Managing Partner of SunTx. Pursuant to the access agreement, Island Pond grants the Company the non-exclusive right to use certain land located in Baker County, Georgia for the purposes of business development.
- The Company rents vehicles from an entity owned by a family member of a Senior Vice President of the Company (“Vehicle Rentals”). The vehicles are rented on a month-to-month basis.
- Family members of a Senior Vice President of the Company provide consulting services to a subsidiary of the Company (“Consulting Services”).
- A law firm owned by a family member of a Senior Vice President of the Company provides legal services to a subsidiary of the Company (“Legal Services”).
- A subsidiary of the Company leases office space for its Dothan, Alabama office from H&K, Ltd. (“H&K”), an entity partially owned by a Senior Vice President of the Company. The office space is leased through early 2020. Under the lease agreement, the Company pays a fixed minimum rent per month.
- A subsidiary of the Company leased office space for its Montgomery, Alabama office from H&A Properties LLC (“H&A”), an entity partially owned by two Senior Vice Presidents of the Company. Under the lease agreement, the Company paid a fixed minimum rent per month. In September 2018, the subsidiary purchased this office from H&A for \$0.5 million.
- A company owned by an immediate family member of a Senior Vice President of the Company provides subcontracting services to a subsidiary of the Company (“Subcontracting Services”).
- The Company is party to a management services agreement with SunTx, under which the Company pays \$0.25 million per fiscal quarter and reimburses certain travel expenses.

The following table presents revenues earned and expenses incurred by the Company during the fiscal years ended September 30, 2018 and September 30, 2017, and accounts receivable and accounts payable balances at September 30, 2018 and 2017, related to transactions with the related parties described above (in millions):

	Revenue Earned (Expense Incurred)		Accounts Receivable (Payable)	
	For the Fiscal Year Ended September 30,		September 30,	
	2018	2017	2018	2017
Purchaser of subsidiary	\$ —	\$ —	\$ 0.9	\$ —
Disposed entity	\$ —	\$ —	\$ 0.8	\$ —
Austin Trucking	\$ (13.0) ⁽¹⁾	\$ (11.8) ⁽¹⁾	\$ (0.8)	\$ (1.0)
Construction Services	\$ 1.8	\$ 6.3	\$ 2.9	\$ 5.3
Deep South Adventures, LLC	\$ — ⁽²⁾	\$ (0.3) ⁽²⁾	\$ —	\$ —
Island Pond	\$ (0.3) ⁽²⁾	\$ (0.3) ⁽²⁾	\$ —	\$ —
Vehicle Rentals	\$ (1.2) ⁽²⁾	\$ (1.2) ⁽²⁾	\$ —	\$ —
Consulting Services	\$ (0.3) ⁽²⁾	\$ (0.2) ⁽²⁾	\$ —	\$ —
Legal Services	\$ (0.1) ⁽²⁾	\$ (0.3) ⁽²⁾	\$ —	\$ —
H&K	\$ (0.1) ⁽²⁾	\$ (0.1) ⁽²⁾	\$ —	\$ —
H&A	\$ (0.1) ⁽²⁾	\$ (0.1) ⁽²⁾	\$ —	\$ —
Subcontracting Services	\$ (0.2) ⁽¹⁾	\$ — ⁽¹⁾	\$ (0.1)	\$ —
SunTx	\$ (1.5) ⁽²⁾	\$ (1.3) ⁽²⁾	\$ —	\$ —

⁽¹⁾ Cost is reflected as cost of revenues on the Company's Consolidated Statements of Income

⁽²⁾ Cost is reflected as general and administrative expenses on the Company's Consolidated Statements of Income

Note 19 - Commitments and Contingencies

Operating Leases

The Company leases office premises and equipment. Where leases contain escalation clauses or concessions, such as rent holidays and landlord/tenant incentives or allowances, the impact of such adjustment is recognized on a straight-line basis over the minimum lease period. Certain leases provide for renewal options and require the payment of real estate taxes or other occupancy costs, which are also subject to escalation clauses. Operating lease expense amounted to approximately \$11.2 million and \$9.1 million for the fiscal years ended September 30, 2018 and September 30, 2017, respectively, which is primarily included in cost of revenues in the Consolidated Statements of Income.

Future minimum obligations under non-cancelable operating leases at September 30, 2018 were as follows (in thousands):

Fiscal Year	Amount
2019	\$ 9,007
2020	6,192
2021	2,820
2022	922
2023	208
Thereafter	188
Total	\$ 19,337

These amounts include obligations to related parties described in Note 18 - Related Parties of \$0.2 million in fiscal year 2019 and \$0.1 million in fiscal year 2020.

Litigation, Claims, and Assessments

The Company, from time to time, is subject to various inquiries or audits by taxing authorities (income taxes or other) originating from its operations, covering a wide range of matters that arise in the ordinary course of business. Each of these matters is subject to various uncertainties, and it is possible that some of these matters may not be resolved in the Company's favor. The Company is also involved in other legal and administrative proceedings arising in the ordinary course of business. The outcomes of these inquiries and legal proceedings are not expected to have a material effect on the Company's financial position or results of operations on an individual basis, although adverse outcomes in a significant number of such ordinary course inquiries and legal proceedings could, in the aggregate, have a material adverse effect on the Company's financial condition and results of operations.

Letters of Credit

Under the Compass Revolving Credit Facility, the Company has a total capacity of \$30.0 million that may be used for a combination of cash borrowings and letters of credit issuances. At September 30, 2018 and September 30, 2017, the Company had aggregate letters of credit outstanding in the amount of \$11.8 million and \$8.7 million, respectively, primarily related to certain insurance policies as described in Note 3 - Significant Accounting Policies.

Note 20 - Joint Venture

In November 2017, one of the Company's wholly owned subsidiaries entered into a joint venture agreement (the "JV") with a third party for the sole purpose of bidding on and, if awarded, performing a construction project for the Alabama Department of Transportation. The Company and the third-party each own a 50% partnership interest in the JV and share revenue and expenses on a 50/50 basis. The JV is jointly managed by representatives of the Company and the third-party and all labor, material and equipment required to perform the contract is subcontracted to parties which may include both the subsidiary of the Company that is party to the JV and the third-party.

The Company accounts for this joint venture as an equity method investment in accordance with GAAP. Through September 30, 2018, the Company invested approximately \$0.4 million into the JV, which is reflected as investment in joint venture on the Consolidated Balance Sheet. During the fiscal year ended September 30, 2018, the Company recognized \$1.3 million pre-tax income, respectively, representing its 50% interest in the earnings of the JV, which is reflected as earnings from investment in joint venture on the Consolidated Statements of Income and included within investment in joint venture on the Consolidated Balance Sheet. The Company's income tax impact attributable to its investment in the JV is included within the provision for income taxes on its Consolidated Statements of Income.

Note 21 - Settlement Agreement

On April 19, 2018, certain of the Company's subsidiaries entered into settlement agreements with a third party, pursuant to which they will receive aggregate net payments of approximately \$15.7 million, payable in four equal installments between January 2019 and July 2020, in exchange for releasing and waiving all current and future claims against the third party relating to compensation to the Company for a business interruption event that occurred more than five years ago, which did not directly relate to the Company's business and which has not, and is not expected to, recur (the "Settlement"). The Company recorded a pre-tax gain of \$14.8 million during the fiscal year ended September 30, 2018 related to the Settlement, which is reflected as settlement income on the Consolidated Statements of Income. Future payments are reflected on the Consolidated Balance Sheets as other current assets and other assets in the amount of \$7.9 million and \$7.2 million, respectively.

Note 22 - Condensed Financial Statements of Registrant

**CONSTRUCTION PARTNERS, INC.
PARENT COMPANY ONLY
CONDENSED BALANCE SHEETS
(in thousands, except share and per share data)**

	September 30,	
	2018	2017
ASSETS		
Cash and cash equivalents	\$ 53,352	\$ 1,330
Investment in subsidiaries	247,944	162,274
Due from subsidiaries	545	—
Other assets	1,226	2,196
Total current assets	<u>303,067</u>	<u>165,800</u>
Property, plant and equipment	131	—
Total assets	<u>\$ 303,198</u>	<u>\$ 165,800</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Treasury stock purchase obligation	\$ 569	\$ 2,569
Due to subsidiaries	800	6,449
Other current liabilities	187	1,062
Total short-term liabilities	<u>1,556</u>	<u>10,080</u>
Long-term liabilities:		
Due to subsidiaries	2,177	2,971
Treasury stock purchase obligation	—	569
Total long-term liabilities	<u>2,177</u>	<u>3,540</u>
Total liabilities	<u>3,733</u>	<u>13,620</u>
Stockholders' Equity		
Preferred stock, par value \$0.001; 10,000,000 shares authorized at September 30, 2018 and 1,000,000 shares authorized at September 30, 2017 and no shares issued and outstanding	—	—
Class A common stock, par value \$0.001; 400,000,000 shares authorized, 11,950,000 shares issued and outstanding at September 30, 2018, and no shares authorized, issued and outstanding at September 30, 2017	12	—
Class B common stock, par value \$0.001; 100,000,000 shares authorized, 42,387,571 shares issued and 39,464,619 shares outstanding at September 30, 2018, and no shares authorized, issued and outstanding at September 30, 2017	42	—
Common stock, \$.001 par value, no shares authorized, issued and outstanding at September 30, 2018, and 126,000,000 shares authorized, 44,987,575 shares issued and 41,691,541 shares outstanding at September 30, 2017	—	45
Additional paid-in capital	242,489	142,385
Treasury stock, at cost	(15,603)	(11,983)
Retained earnings	72,525	21,733
Total stockholders' equity	<u>299,465</u>	<u>152,180</u>
Total liabilities and stockholders' equity	<u>\$ 303,198</u>	<u>\$ 165,800</u>

See note to condensed financial statements of parent company.

CONSTRUCTION PARTNERS, INC.
PARENT COMPANY ONLY
CONDENSED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	For the Fiscal Year Ended September 30,	
	2018	2017
Equity in net income of subsidiaries	\$ 51,515	\$ 28,312
Equity-based compensation expense	(975)	(513)
General and administrative expenses	(1,542)	(388)
Loss on extinguishment of debt	—	(714)
Interest expense, net	72	(1,338)
Income before provision for income taxes	49,070	25,359
Income tax benefit	1,721	681
Net income	<u>\$ 50,791</u>	<u>\$ 26,040</u>
Net income per share attributable to common stockholders:		
Basic	\$ 1.11	\$ 0.63
Diluted	\$ 1.11	\$ 0.63
Weighted average number of common shares outstanding:		
Basic	45,605,845	41,550,293
Diluted	45,919,648	41,550,293

See note to condensed financial statements of parent company.

CONSTRUCTION PARTNERS, INC.
PARENT COMPANY ONLY
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Fiscal Year Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 50,791	\$ 26,040
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of deferred debt issuance costs	6	216
Loss on extinguishment of debt	—	714
Deferred income taxes	—	350
Equity-based compensation expense	975	513
Equity in net income of subsidiaries	(51,515)	(28,312)
Changes in operating assets and liabilities:		
Other current liabilities	—	1,061
Other current assets	969	(1,603)
Other liabilities	(3,369)	—
Net cash used in operating activities	<u>(2,143)</u>	<u>(1,021)</u>
Cash flows from investing activities:		
Return of investments in subsidiaries	—	27,000
Purchases of property, plant and equipment	(131)	—
Investment in subsidiary	(34,155)	—
Net cash (used in) provided by investing activities	<u>(34,286)</u>	<u>27,000</u>
Cash flows from financing activities:		
Change in amounts due to (from) subsidiaries, net	(6,994)	20,305
Repayments of long-term debt	—	(12,500)
Payment of treasury stock purchase obligation	(2,569)	(3,000)
Proceeds from initial public offering of Class A common stock, net of offering costs	98,009	—
Proceeds from sale of treasury stock	5	638
Common stock dividend paid	—	(31,293)
Net cash provided by (used in) financing activities	<u>88,451</u>	<u>(25,850)</u>
Net change in cash and cash equivalents	<u>\$ 52,022</u>	<u>\$ 129</u>
Cash and cash equivalents:		
Beginning of period	\$ 1,330	\$ 1,201
End of period	\$ 53,352	\$ 1,330

See note to condensed financial statements of parent company.

Note to Condensed Financial Statements of Parent Company

These condensed parent company-only financial statements have been prepared in accordance with Rule 12-04, Schedule I of Regulation S-X, as the restricted net assets of the subsidiaries of Construction Partners, Inc. (as defined in Rule 4-08(e)(3) of Regulation S-X) exceed 25% of the consolidated net assets of the Company. The ability of Construction Partners, Inc.'s operating subsidiaries to pay dividends is restricted by the terms of the credit facilities described in Note 12 - Debt.

These condensed parent company-only financial statements have been prepared using the same accounting principles and policies described in the notes to the consolidated financial statements, with the exception that the parent company accounts for its subsidiaries using the equity method. These condensed parent company-only financial statements should be read in conjunction with the consolidated financial statements and related notes thereto.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Our management, under the supervision of our President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. As a result of the material weaknesses described below, our President and Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were not effective at the reasonable assurance level.

Internal Control Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by SEC rules for newly public companies.

Nevertheless, in the course of preparing the consolidated financial statements for the fiscal years ended September 30, 2018 and 2017, our management determined we have material weaknesses in our internal control over financial reporting relating to the design and operation of our information technology general controls and overall closing and financial reporting controls, including our accounting for significant and unusual transactions. We have concluded that these material weaknesses in our internal control over financial reporting are primarily due to the fact that we have historically operated as a private company with limited resources and had neither formally designed and implemented the necessary business processes and related internal controls nor employed personnel with the appropriate level of experience and technical expertise to oversee (i) our business processes and controls surrounding information technology general controls, (ii) our closing and financial reporting processes, or (iii) the accounting and financial reporting requirements related to significant and unusual transactions.

Changes in Internal Control

As a result of these material weaknesses, we have initiated and will continue to implement remediation measures including, but not limited to: (i) hiring additional accounting staff members to augment our current staff and to improve the effectiveness of our financial period close and reporting processes; (ii) engaging a third party to assist us in complying with the accounting and financial reporting requirements related to significant and unusual transactions; (iii) engaging a third party to assist us in identifying and implementing the business processes and controls surrounding information technology general controls; and (iv) engaging a third party to assist us with formalizing our business processes, accounting policies and internal control documentation, strengthening supervisory reviews by our management, and evaluating the effectiveness of our internal controls in accordance with the framework established by *Internal Control - Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission.

Notwithstanding the material weaknesses, our management has concluded that the consolidated financial statements included elsewhere in this Annual Report on Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows in conformity with GAAP.

Other than the changes intended to remediate the material weaknesses noted above, there were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated by reference to the proxy statement for the 2019 annual meeting of stockholders of the Company to be filed by the Company with the SEC under the Exchange Act (the “2019 Proxy Statement”). We intend to file the 2019 Proxy Statement on or about January 22, 2019, but in any event within 120 days after the fiscal year ended September 30, 2018.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to the 2019 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated by reference to the 2019 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference to the 2019 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated by reference to the 2019 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents Filed as Part of this Report.

(1) Financial Statements.

The consolidated financial statements of Construction Partners, Inc. and its subsidiaries and the parent-only financial statements of Construction Partners, Inc. included herein at Item 8 are as follows:

- Report of Independent Registered Public Accounting Firm — RSM US LLP
- Consolidated Balance Sheets as of September 30, 2018 and 2017
- Consolidated Statements of Income for the fiscal years ended September 30, 2018 and 2017
- Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended September 30, 2018 and 2017
- Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2018 and 2017
- Notes to Consolidated Financial Statements for the fiscal years ended September 30, 2018 and 2017
- Parent Company Balance Sheets as of September 30, 2018 and 2017
- Parent Company Statements of Income for the fiscal years ended September 30, 2018 and 2017
- Parent Company Statements of Cash Flows for the fiscal years ended September 30, 2018 and 2017

(2) Financial Statement Schedules.

The financial statement schedules required to be included pursuant to this Item are not included herein because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto, which are incorporated by reference at Item 15(a)(1) above.

(3) Exhibits.

The exhibits to this report are listed in the exhibit index below.

(b) Description of Exhibits.

The following exhibits are filed or furnished with this report, as applicable, or incorporated by reference:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Construction Partners, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 27, 2018)
3.2	Amended and Restated Bylaws of Construction Partners, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 27, 2018)
4.1	Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 23, 2018)
4.2	Registration Rights Agreement, dated June 8, 2007, by and among Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) and certain security holders party thereto (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.1†	Form of Indemnification Agreement, by and between Construction Partners, Inc. and each of its directors and executive officers (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 23, 2018)
10.2	Credit Agreement, dated June 30, 2017, by and among Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.), Wiregrass Construction Company, Inc., Fred Smith Construction, Inc., FSC II, LLC, C.W. Roberts Contracting, Incorporated and Everett Dykes Grassing Co., Inc., as Borrowers, the financial institutions party thereto from time to time, and Compass Bank, as Agent, Sole Lead Arranger and Sole Bookrunner (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.2A	Amendment to Credit Agreement, dated June 30, 2017, by and among Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.), Wiregrass Construction Company, Inc., Fred Smith Construction, Inc., FSC II, LLC, C.W. Roberts Contracting, Incorporated, and Everett Dykes Grassing Co., Inc., as Borrowers, Compass Bank, as Agent for Lenders and as a Lender and Issuing Bank, and ServisFirst Bank, as a Lender (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)

Exhibit Number	Description
10.2B	Loan Modification Agreement and Amendment to Loan Documents, dated November 14, 2017, by and among Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.), Wiregrass Construction Company, Inc., Fred Smith Construction, Inc., FSC II, LLC, C.W. Roberts Contracting, Incorporated, and Everett Dykes Grassing Co., Inc., as Borrowers, Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.), as Guarantor, Compass Bank, as Agent for Lenders and as a Lender and Issuing Bank, and ServisFirst Bank, as a Lender (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.2C	Loan Modification Agreement and Amendment to Loan Documents, dated December 31, 2017, by and among Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.), Wiregrass Construction Company, Inc., Fred Smith Construction, Inc., FSC II, LLC, C.W. Roberts Contracting, Incorporated, and Everett Dykes Grassing Co., Inc., as Borrowers, Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.), as Guarantor, Compass Bank, as Agent for Lenders and as a Lender and Issuing Bank, and ServisFirst Bank, as a Lender (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.2D	Loan Modification Agreement and Amendment to Loan Documents, dated May 15, 2018, by and among Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.), Wiregrass Construction Company, Inc., Fred Smith Construction, Inc., FSC II, LLC, C.W. Roberts Contracting, Incorporated, Everett Dykes Grassing Co., Inc. and The Scruggs Company, as Borrowers, Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.), as Guarantor, Compass Bank, as Agent for Lenders and as a Lender and Issuing Bank, and ServisFirst Bank, as a Lender (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K (File No. 001-38479) filed on May 25, 2018)
10.3†	Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) 2016 Equity Incentive Plan and forms of Option Agreement, Option Grant Notice, Restricted Stock Award Agreement and Restricted Stock Award Grant Notice thereunder (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.4†	Construction Partners, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 23, 2018)
10.4A†	Form of Stock Option Award under the Construction Partners, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.4B†	Form of Restricted Stock Award under the Construction Partners, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.4C†	Form of Restricted Stock Unit Award under the Construction Partners, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.4D†	Form of Stock Appreciation Rights Award (Stock-Settled) under the Construction Partners, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.4E†	Form of Stock Appreciation Rights Award (Cash-Settled) under the Construction Partners, Inc. 2018 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.5	Management Services Agreement, dated October 1, 2006, by and between Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.) and SunTx Capital Management Corp. (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.5A	Amendment to Management Services Agreement, dated October 1, 2013, by and between Construction Partners Holdings, Inc. (f/k/a Construction Partners, Inc.) and SunTx Capital Management Corp. (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.6†	Employment and Non-Compete Agreement, effective as of July 1, 2014, by and between FSC II, LLC and F. Julius Smith III (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.7†	Form of Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) Non-Plan Stock Option Award Agreement (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)

Exhibit Number	Description
10.7A†	Form of Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) First Amendment to Non-Plan Stock Option Award Agreement (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
10.8†	Option Agreement, dated March 7, 2017, between Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) and F. Julius Smith, III (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
14.1*	Code of Business Conduct and Ethics
16.1	Letter of PBMares, LLP (incorporated by reference to Exhibit 16.1 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)
21.1*	List of Significant Subsidiaries of Construction Partners, Inc.
23.1*	Consent of RSM US LLP
31.1*	Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1**	Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
95.1*	Mine Safety Disclosures
101*	Interactive Data Files
†	Management contract, compensatory plan or arrangement.
*	Filed herewith.
**	Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 14th day of December, 2018.

CONSTRUCTION PARTNERS, INC.

By: /s/ Charles E. Owens

Charles E. Owens

President and Chief Executive Officer

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

<u>Name and Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles E. Owens</u> Charles E. Owens	President, Chief Executive Officer and Director (Principal Executive Officer)	December 14, 2018
<u>/s/ R. Alan Palmer</u> R. Alan Palmer	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 14, 2018
<u>/s/ Todd K. Andrews</u> Todd K. Andrews	Chief Accounting Officer (Principal Accounting Officer)	December 14, 2018
<u>/s/ Ned N. Fleming, III</u> Ned N. Fleming, III	Executive Chairman of the Board and Directors	December 14, 2018
<u>/s/ Craig Jennings</u> Craig Jennings	Director	December 14, 2018
<u>/s/ Mark R. Matteson</u> Mark R. Matteson	Director	December 14, 2018
<u>/s/ Michael H. McKay</u> Michael H. McKay	Director	December 14, 2018
<u>/s/ Stefan L. Shaffer</u> Stefan L. Shaffer	Director	December 14, 2018

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CORPORATE INFORMATION

COMMON STOCK

Construction Partners, Inc. has a dual class common stock structure consisting of Class A and Class B common stock. With respect to each proposal to come before our stockholders, each share of Class A common stock is entitled to one vote, and each share of Class B common stock is entitled to ten votes. As of January 7, 2019, there were 11,950,000 shares of Class A common stock outstanding and 39,464,619 shares of Class B common stock outstanding.

Since May 4, 2018, our Class A common stock has been traded on the Nasdaq Global Select Market under the ticker symbol “ROAD.”

FINANCIAL PUBLICATIONS

Our Annual Report on Form 10-K for the fiscal year ended September 30, 2018 has been filed with the Securities and Exchange Commission and is available on the SEC’s website at <http://www.sec.gov> and at www.proxyvote.com. Copies of this report and other filings that we make with the SEC are also available on our website at www.constructionpartners.net under the “Investors” tab and may be obtained by submitting a written request to our Secretary at our corporate office.

CORPORATE OFFICES

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BOARD OF DIRECTORS

Ned N. Fleming, III

Mark R. Matteson

Charles E. Owens

Craig Jennings

Michael H. McKay

Stefan L. Shaffer

MANAGEMENT TEAM

Todd K. Andrews

Robert P. Flowers

R. Alan Palmer

M. Brett Armstrong

John L. Harper

F. Julius Smith, III

J. Ryan Brooks

Charles E. Owens

John A. Walker



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