

13 March 2019

Somero Enterprises, Inc.
("Somero" or "the Company")

Final Results

Delivering record revenue, profit and cash flow, driving execution of our growth strategy

Somero Enterprises, Inc. is pleased to report its annual results for the twelve months ended December 31, 2018.

Financial Highlights

- Delivered a year of record annual revenue and profit
- Strong financial position, with a record level of cash flow generation and US\$ 28.2m net cash on the balance sheet
- Substantial return of cash to shareholders:
 - Paid US\$ 12.3m in dividends to shareholders in 2018 (2017: US\$ 13.9m that included a US\$ 7.5m special dividend in August 2017)

	FY18	FY17	% Increase
Revenue	US\$94.0m	US\$85.6m	10%
Adjusted EBITDA ^(1,2)	US\$30.8m	US\$28.0m	10%
Adjusted EBITDA margin ^(1,2)	33%	33%	-
Profits before tax	US\$29.1m	US\$25.7m	13%
Adjusted net income ^(1,3)	US\$21.4m	US\$17.5m	22%
Diluted adjusted net income per share ^(1,3)	US\$0.38	US\$0.31	23%
Cash flow from operating activities	US\$23.8m	US\$20.0m	19%
Net cash ⁽⁴⁾	US\$28.2m	US\$19.0m	48%
Ordinary dividend per share	US\$0.190	US\$0.155	23%
Supplemental dividend per share	US\$0.117	US\$0.036	225%

Operational Highlights

- Healthy demand across markets and product lines:
 - Growth in 2018 predominately led by North America and the Rest of World markets
 - Sales of Boomed screeds grew 9% to US\$ 39.2m (2017: US\$ 35.9m)
 - Sales of Ride-on screeds grew 23% to US\$ 22.9m (2017: US\$ 18.6m)
- New products contributed meaningfully to growth
 - Sales of the S-22EZ and SP-16 Line Pulling & Placing System combined to contribute US\$ 3.0m to 2018 growth

Post-Period Highlights

- Acquired Line Dragon ® business assets ("Line Dragon") in January 2019 to complement Somero's SP-16 Line Pulling & Placing System product offering
- Launch of the SkyScreed ® 25 at the January 2019 World of Concrete trade show in Las Vegas, USA generating significant attention and interest

Notes:

- 1. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures below.*
- 2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange loss, other expense, depreciation, amortization, and stock-based compensation.*
- 3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.*
- 4. Net cash is defined as cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.*

Jack Cooney, CEO of Somero, said:

"2018 was a record year for Somero by all measures. We delivered record revenues of US\$ 94.0m, comfortably surpassing the 5-year strategic target we set out in 2014 to reach US\$ 90.0m in revenue by 2018. These revenues translated to record profits and cash flow from operations and allowed for the return of a significant amount of cash to shareholders in the period.

During the year we completed the design and development of the SkyScreed[®] 25, the world's first Laser Screed[®] machine for use in structural high-rise applications. This opens an exciting new market segment for the Company and starts the next chapter in Somero's product development. Additionally, in January 2019 we completed the acquisition of Line Dragon to complement and enhance Somero's current SP-16 Line Pulling & Placing System product offering.

We accomplished much in 2018, but what I am most pleased about is that throughout the year we remained focused on our mission to help our customers build successful, profitable businesses. This focus is reflected by our employees' unrelenting commitment to this goal, a passion that earns the loyalty of our customers and delivers these exceptional results for our shareholders.

Somero begins 2019 financially stronger than ever and well-positioned to capture growth in new and existing markets with a strong product offering. With the opportunities that lie ahead and the steps we have taken to position the Company for the future, I am confident the Company will deliver strong results and dividends for our shareholders."

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

For further information, please contact:

Somero Enterprises, Inc.

Jack Cooney, CEO

John Yuncza, CFO

Howard Hohmann, EVP Sales

www.somero.com

+1 239 210 6500

finnCap Ltd (NOMAD and Broker)

Matt Goode (Corporate Finance)

Carl Holmes (Corporate Finance)

Kate Bannatyne (Corporate Finance)

Tim Redfern/Richard Chambers (ECMO)

+44 (0)20 7220 0500

Alma PR (Financial PR Advisor)

Rebecca Sanders-Hewett

Susie Hudson

Sam Modlin

somero@almapr.co.uk

+44(0) 20 3405 0205

Notes to Editors:

Somero Enterprises provides industry-leading concrete-levelling equipment, training, education and support to customers in over 90 countries. The Company's cutting-edge technology allows its customers to install high-quality horizontal concrete floors faster, flatter and with fewer people. Somero equipment that incorporates laser-technology and wide-placement methods is used to place and screed the concrete slab in all building types and has been specified for use in a wide range of commercial construction projects for numerous global blue-chip companies.

Somero pioneered the Laser Screed market in 1986 and has maintained its market-leading position by continuing to focus on bringing new products to market and developing patent-protected proprietary designs. In addition to its products, Somero offers customers unparalleled global service, technical support, training and education, reflecting the Company's emphasis on helping its customers achieve their business and profitability goals, a key differentiator to its peers.

For more information, visit www.somero.com

To see a video of Somero's newest product, the SkyScreed® 25 in action, visit <https://bit.ly/2lfhlVg>

Chairman's Statement

Performance and Dividend

I am delighted to report that Somero delivered another year of outstanding results for our shareholders in 2018, alongside taking important steps to execute its strategy and position the Company for future growth. The Company's strong operational and financial performance supports continuing investment in new opportunities such as the design and development of the SkyScreed® 25 in 2018, and the acquisition of Line Dragon in January 2019.

We continue to prioritize investments that support executing our growth strategy while remaining committed to a disciplined return of cash to shareholders. Accordingly, I am also delighted to report that with the Company's impressive 2018 results, healthy financial position, and the Board's confidence in the business outlook, the Board has approved a final 2018 ordinary dividend of 13.5 US cents per share and a supplemental dividend of 11.7 US cents per share, both payable on April 26, 2019 to shareholders on the register at April 5, 2019. Together with the interim dividend paid in October 2018 of 5.5 US cents per share, the 2018 full year regular dividend payment to shareholders is 19.0 US cents per share, a 23% increase from 2017. The supplemental dividend declared is in accordance with the Company's supplementary dividend policy adopted on March 14, 2018 that states the Company intends to distribute 50% of the excess of net cash over the year-end target of US\$ 15.0m.

Strategic Progress

At the core of our strategy is innovation. Somero has a long track record of delivering innovative solutions that started with the introduction of the first Laser Screed® machine in 1986, the product that transformed the concrete contractor industry. Our latest innovation, the SkyScreed® 25, is a truly unique product that opens an exciting new market for Somero and, we believe, begins a new chapter of product development. Bringing the SkyScreed® 25 to market was the result of dedicated market research and direct engagement with customers to understand their challenges that formed the basis for designing an innovative solution to these challenges. Through the years, Somero's new product launches have been successful because our product development effort is and always has been a customer led process. We understand customer involvement throughout the development cycle is critical to ensure our ideas turn into tangible products that create meaningful value.

The Company's acquisition of Line Dragon is another example of the Company's focus on adding innovations to our product offerings. We believe the combined best features of the SP-16 and Line Dragon's products will increase the value we provide customers and enhance Somero's product offering.

In 2018, Somero also continued to diversify by geography. Revenues from outside North America grew by US\$ 1.5m compared to 2017 to reach US\$ 29.3m, or 31% of total revenues for the year. Underlying this growth is Somero's continued effort to deepen our penetration of international markets by promoting adoption of wide-placement theory and quality concrete flooring standards. The demand for quality concrete floors from building owners and end-users is the key driver of market adoption of Somero technology, and we will continue to focus our market development efforts to drive this demand.

Our People

This year the Board was delighted to again meet with the full management team, review the plans and objectives for each function, and see first-hand the energy and commitment of the teams that run the business. Somero's success would not be possible without our employees' unrelenting commitment to Somero's mission of helping our customers build successful, profitable businesses. The positive outcomes we generate for our customers fuel our financial and operational success and support our demonstrated ability to create shareholder value. On behalf of the Board, I would like to thank the management team and all 190 Somero employees located throughout the world for delivering these outstanding results.

Outlook

The Board believes the Company has numerous meaningful growth opportunities in 2019 across its broad portfolio of markets and products that is supported by positive non-residential construction market conditions and reinforced by customers reporting project backlogs that extend beyond 2019. Based on this positive environment and the momentum of the business, the Board is confident that Somero is poised to deliver another year of profitable growth to shareholders in 2019.

Larry Horsch

Non-Executive Chairman

March 13, 2019

President and Chief Executive Officer's Review

Overview

In so many ways, 2018 was an exceptional year for Somero. We set another record for revenues, profits, cash flow from operations, returned US\$ 12.3m in dividends to our shareholders, ended the year with a strong and secure balance sheet, and most importantly took significant steps to execute our strategy and position the Company for future growth. We also comfortably surpassed the strategic target we set in 2014 to grow the business to US\$ 90.0m by 2018, a milestone for the Company.

2018 was a year of balanced, profitable growth. Strength in our North American market was complemented by contributions from our Rest of World territories and the Middle East. In total, four of our six markets grew compared to 2017 with revenues from outside of North America increasing US\$ 1.5m compared to 2017. On a product basis, our growth was balanced as well, with growth in four of our six product categories led by particularly strong sales of Ride-on screeds and Boomed screeds. We are pleased with the diversification in revenues geographically and across the product range and we are confident that we can provide solutions that meet the needs of customers regardless of project type, size or location.

Region Reviews

In 2018, sales in North America, our largest market, grew 12% compared to 2017 to reach US\$ 64.7m. This was driven by strong H2 2018 trading in which sales grew 16% compared to the H2 2017. The high-level of non-residential construction activity in 2018, along with a shortage of skilled labor, increased demand for Somero equipment. We see continued strength in the underlying non-residential construction industry in the US and an extended pipeline of projects that remain in front of our US customer base. Going into 2019, market drivers in North America continue to be demand for replacement equipment, technology upgrades, fleet additions, and new products.

In Europe, 2018 sales grew to US\$ 13.5m compared to US\$ 13.2m in 2017, driven by a solid performance throughout the year and in spite of a strong second half comparable from 2017 in the region. Reflecting the well-balanced demand, equipment was sold into eighteen countries across Europe in 2018, with the most significant contributors being UK, Germany, France, Spain and Portugal. European market conditions and activity levels remain positive with well-balanced demand, and we continue to see significant opportunities across the region.

In China, 2018 sales were US\$ 5.3m, representing a US\$ 0.2m decline compared to 2017. We believe we are taking the appropriate steps to position ourselves for future growth in this important, and significant, market. This includes a narrowed product line focus supported by marketing and demand generation initiatives, combined with the expected increasing benefit from our in-country sales leadership. We continue to see longer-term opportunity in the quality-oriented market segment in China and understand that the catalyst for growth in the segment will be acceptance of and demand for quality concrete floors by building owners and end-users. We will continue to pursue market development efforts to drive this acceptance and demand.

2018 sales in the Middle East were US\$ 2.4m, an increase of US\$ 0.3m compared to 2017. Activity levels in the region were solid throughout the year, and the Middle Eastern countries with meaningful contributions to 2018 sales were Turkey, the United Arab Emirates and Egypt.

In Latin America, 2018 sales were US\$ 1.7m, down US\$ 0.6m compared to 2017, as 2018 project activity remained solid but did not translate into equipment sales as expected due in part to the impact of election cycles in the region. During the year, the most significant contributions in the region came from Mexico and Chile. We remain encouraged by the activity seen throughout the year in the region, particularly in Mexico, and expect to see improvement in 2019.

In our Rest of World region, 2018 sales were particularly strong with a 36%, or US\$ 1.7m, increase from 2017. The most significant contributors to growth from this region were Australia and India. We are particularly encouraged by early signs of increasing demand for quality concrete floors in India, and the investments we have made with in-country leadership and resources are helping to drive these positive results.

Cashflow and Balance Sheet

Somero's earnings growth and the cash flow generated from these profits remains healthy as the Company delivered a year of record operating cash flow in 2018. Combined with effective working capital management, cash flow from operations increased to US\$ 23.8m, a US\$ 3.8m increase from US\$ 20.0m in 2017. This cash flow allowed the Company to raise the dividend pay-out ratio to 50% on the final 2017 ordinary dividend paid in April 2018. With this increased ordinary dividend, the US\$ 2.0m supplemental dividend, also paid in April 2018, and the increased interim dividend of US\$ 3.1m paid in October 2018, Somero paid a total of US\$ 12.3m in dividends to shareholders in 2018. The cash generation of the Company was able to fund the 2018 dividend payments and still end the year with a US\$ 28.2m net cash⁽¹⁾ balance, a US\$ 9.2m increase from the US\$ 19.0m at year-end 2017. I am pleased to report that reflecting the Board's confidence in the health of the business and growth prospects for the Company, the Board has declared a final 2018 ordinary dividend of 13.5 US cents per share and a supplemental dividend of 11.7 US cents per share, both payable on April 26, 2019 that combined will result in a US\$ 14.2m dividend payment to shareholders.

People

During the year we continued to benefit from increased scale and greater efficiencies in our operations, which partially offset the investment to bring new talent into the organization. We ended 2018 with 190 employees, an increase of 13 from 2017, and with this increase have enhanced our talent level and expanded our capabilities. In 2019 and beyond, as the business continues to grow, we expect to continue to add personnel. We will remain highly selective in the quality and fit of the individuals we hire and devote a large part of the hiring process to identifying individuals who embrace the Somero culture and core values.

Product Development

2018 was a very productive year for Somero's product development effort, and new products continued to be significant contributors. We gained traction in the Boomed-screed category in 2018 with the introduction of the S-22EZ that provided performance enhancement, ease of use and ease of maintenance features that were well-received by the market. The S-22EZ contributed US\$ 2.2m in incremental sales in 2018, a significant portion of the US\$ 3.3m in growth from the Boomed-screed category. In addition, the SP-16 Line-Pulling and Placing System, a product launched in January 2017, contributed US\$ 0.8m in 2018 growth as the product gains broader acceptance.

A significant portion of our product development resources have been focused on the designing and developing solutions for the high-rise structural market. This is a new, unpenetrated market for Somero and the development effort includes gaining a deeper understanding of the unique job site challenges of this particular market segment. Not only have we been able to launch a product to begin penetrating this untapped market with the SkyScreed[®] 25, we have also gained clarity on the long-term opportunity the market represents. We are pleased with the early interest in the SkyScreed[®] 25, but also understand this represents only the first step in a long journey of product development. With a secure financial position and the range of long-term opportunities that Somero is well-placed to pursue, the Board has made the decision to moderately increase investment to enable us to accelerate product development initiatives in 2019. We are confident in our ability to deliver on these initiatives alongside continuing to deliver profitable growth for our shareholders.

Achievement of our 2018 Strategic Objective

We completed the fifth year of our five-year plan that targeted a doubling of 2013 revenues to US\$ 90m in 2018. Along the way, our management team reacted to changing conditions in each of our markets to identify areas for growth and allocate resources to capitalize on opportunities. We are proud to have achieved this target, and we begin 2019 a different, and significantly more diversified, company than when we started the 5-year journey. We are excited to begin the next chapter of growth and are pleased with the opportunities that lie ahead in our underpenetrated global markets, in new market segments, and from new products. Going forward, while we will not be issuing a 3-year strategic objective target, we do expect to see consistent, solid growth in our legacy business supplemented by additional growth from new products and penetration of new market segments.

Expansion Update

In April 2018, Somero completed the move into a new leased facility in Chesterfield, UK. The new facility provides increased capacity to store equipment, parts and accessories for the UK and European market in addition to providing more office space for sales and customer support personnel in the region. Importantly, the new facility enhances Somero's ability to service the European installed base of equipment and provides a suitable facility to re-manufacture, on a modified basis, equipment received in on trade for resale to the UK and broader European market.

The Company has also reviewed future operational capacity requirements to support the business considering the impact of new products and core business growth. As a result of this review, the Company is moving forward in 2019 with plans for a US\$ 3.5m expansion to our Houghton, Michigan facility. This expansion will add 35,000 square feet to the facility, providing our assembly operations with needed space to accommodate our broadening product line. In addition, the Houghton expansion will add needed office space and engineering testing areas. With regard to the Fort Myers, Florida facility, the Company will not be proceeding with the previously announced US\$ 1.3m expansion project in light of the Houghton expansion. However, in 2019 the Company will review options to modestly expand training and office space in Fort Myers at a cost that is expected to be significantly less than previously announced.

Conclusion

2018 was an outstanding year for Somero and we are looking to build on that momentum as we enter 2019. Our business has positive momentum, supported by favorable market conditions across our geographic footprint and the broad range of opportunities in new and existing markets. Our talent base is deep, our operating platform is becoming stronger, and our employees are aligned with our strategy and energized by the opportunities in front of us. I am certain our management team is up to the task to meet whatever challenges we face and capitalize fully on the opportunities we see. We are well prepared to enter the next phase of growth for our Company, to work to execute our strategy, and most importantly to deliver another year of progress for our shareholders.

Jack Cooney

President and Chief Executive Officer

March 13, 2019

Notes:

(1) *Net Cash is defined as total cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.*

FINANCIAL REVIEW

Summary of Financial Results

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
	Except per share data	Except per share data
Revenue	94,001	85,634
Cost of sales	40,375	36,870
Gross profit	53,626	48,764
Operating expenses		
Selling, marketing and customer support	11,059	10,426
Engineering and product development	1,357	1,222
General and administrative	12,037	11,683
Total operating expenses	24,453	23,331
Operating income	29,173	25,433
Other income (expense)		
Interest expense	(54)	(80)
Interest income	188	262
Foreign exchange impact	(42)	477
Other	(191)	(354)
Income before income taxes	29,074	25,738
Provision for income taxes	7,531	7,322
Net income	21,543	18,416
	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.38	0.33
Diluted earnings per share	0.38	0.33
Basic adjusted net income per share ^{(1) (2) (4)}	0.38	0.31
Diluted adjusted net income per share ^{(1) (2) (4)}	0.38	0.31
Other data		
Adjusted EBITDA ^{(1) (2) (4)}	30,837	28,000
Adjusted net income ^{(1) (3) (4)}	21,407	17,504
Depreciation expense	1,175	1,199
Amortization of intangibles	-	901
Capital expenditures	803	1,959

Notes:

1. Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities

analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of net income plus tax provision, interest expense, interest income, foreign exchange loss, other expense, depreciation, amortization, and stock based compensation.

3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.

4. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Net income to adjusted EBITDA reconciliation and Adjusted net income reconciliation

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
Adjusted EBITDA reconciliation		
Net income	21,543	18,416
Tax provision	7,531	7,322
Interest expense	54	80
Interest income	(188)	(262)
Foreign exchange impact	42	(477)
Other	191	354
Depreciation	1,175	1,199
Amortization	-	901
Stock based compensation	489	467
Adjusted EBITDA	30,837	28,000
Adjusted net income reconciliation		
Net income	21,543	18,416
Amortization	-	901
Tax impact of stock option & RSU settlements	(136)	(1,813)
Adjusted net income	21,407	17,504

Notes:

1. Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of net income excluding tax provision, interest expense, interest income, foreign exchange gain(loss), other expense, depreciation, amortization, and stock based compensation.

3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.

4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Revenues

The Company's consolidated revenues increased by 10% to US\$ 94.0m (2017: US\$ 85.6m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-22EZ, S-15R and S-10A Laser Screed machines, sales from Ride-on screed products, which are drive through the concrete machines that include the S-840, S-485, S-940 and S-158C Laser Screed machines, Remanufactured machines sales, 3-D Profiler System, SP-16 Concrete Hose Line-Pulling and Placing Systems and Other Revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, service, training and shipping charges. The overall increase for the year was driven by Ride-on screeds, Boomed screeds, SP-16 Concrete Hose Line-Pulling and Placing Systems, along with an increase in Other revenues.

Ride-on screed sales increased to US\$ 22.9m (2017: US\$ 18.6m) due to higher volume and price increases, Boomed screed sales increased to US\$ 39.2m (2017: US\$ 35.9m) due to higher volume and price increases, SP-16 Concrete Hose Line-Pulling and Placing Systems sales increased to US\$ 1.6m (2017: US\$ 0.8m) due to higher volume and Other revenues increased to US\$ 19.1m (2017: US\$ 17.9m) primarily due to increased sales of parts and accessories and increased sales of other equipment including the Mini C, offset by 3-D Profiler System sales decrease to US\$ 6.1m (2017: US\$ 6.8m) due to decreased unit sales.

Revenue breakdown by geography		North America US\$ in millions		EMEA ⁽¹⁾ US\$ in millions		ROW ⁽²⁾ US\$ in millions		Total US\$ in millions			
		2018	2017	2018	2017	2018	2017	2018 Net sales	2018 % of Net sales	2017 Net sales	2017 % of Net sales
Boomed screeds ⁽³⁾		27.0	24.0	8.9	9.1	3.3	2.8	39.2	41.7%	35.9	41.9%
Ride-on screeds ⁽⁴⁾		16.6	11.6	4.6	4.4	1.7	2.6	22.9	24.4%	18.6	21.7%
Remanufactured machines		2.3	3.5	0.5	-	2.3	2.1	5.1	5.4%	5.6	6.6%
3D Profiler System		5.3	6.5	0.2	-	0.6	0.3	6.1	6.5%	6.8	7.9%
SP-16		1.5	0.7	0.1	0.1	-	-	1.6	1.7%	0.8	1.0%
Other ⁽⁵⁾		12.0	11.5	2.8	2.4	4.3	4.0	19.1	20.3%	17.9	20.9%
Total		64.7	57.8	17.1	16.0	12.2	11.8	94.0	100.0%	85.6	100.0%

Notes:

1. EMEA includes the Europe, India, Middle East, Scandinavia and Russia markets.

2. ROW includes the China, Australia, Latin America, Korea, and Southeast Asia markets.

3. Boomed Screeds include the S-22E, S-22EZ, S-15R, and S-10A.

4. Ride-On Screeds include the S-840, S-940, S-485, and S-158C.

5. Other includes parts, accessories, services and freight, as well as other equipment such as the STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	2018	2017
Boomed screeds	132	120
Ride-on screeds	234	189
Remanufactured machines	35	39
3D Profiler System	59	66
Total	460	414

Sales to customers located in North America contributed 69% of total revenue (2017: 68%), sales to customers in EMEA (Europe, India, Middle East, Scandinavia, and Russia) contributed 18% (2017: 19%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, and China) contributed 13% (2017: 13%).

Sales in North America were US\$ 64.7m (2017: US\$ 57.8m) up 12% driven by higher sales of Ride-on screeds, Boomed screeds, SP-16, and an increase in Other revenues. Sales in EMEA were US\$ 17.1m (2017: US\$ 16.0m) which is up 7% primarily due to an increase in Ride-on screed sales, sales of Remanufactured machines and an increase in Other revenues. Sales in ROW were US\$ 12.2m (2017: US\$ 11.8m), representing a 3% increase driven by sales of Boomed screeds, 3D Profiler Systems and Other revenues.

Regional sales	US\$ in millions	
	2018	2017
North America	64.7	57.8
Europe ⁽¹⁾	13.5	13.2
China	5.3	5.5
Middle East	2.4	2.1
Latin America	1.7	2.3
Rest of World ⁽¹⁾	6.4	4.7
Total	94.0	85.6

Notes:

1. ROW includes Australia, India, Southeast Asia, Korea and Russia. Scandinavia has been reclassified to be included in Europe for 2018 and 2017.

Gross profit

Gross profit increased to US\$ 53.6m (2017: US\$ 48.8m), with gross margins remaining steady at 57.0% (2017: 56.9%) due to price increases, and productivity gains, offset by material cost increases related to tariffs and surcharges.

Operating expenses

Operating expenses increased by US\$ 1.1m to US\$ 24.5m (2017: US\$ 23.3m). This increase is due to higher selling costs related to the increase in revenue, as well as higher administrative costs.

Debt

On January 31, 2017, the Company paid off the remaining outstanding principal totaling US\$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand. There was no prepayment penalty. There were also no changes to the Company's US\$ 10.0m secured revolving line of credit which will mature in February 2021.

Other income (expense)

Other income (expense) was US\$ 0.1m of other expense, compared to other income of US\$ 0.3m in 2017, due to an increase in foreign currency exchange impact.

Provision for income taxes

The provision for income taxes was US\$ 7.5m in 2018 compared to US\$ 7.3m in 2017. Overall, Somero's effective tax rate changed from 28.4% in 2017 to 25.9% in 2018.

The Tax Cuts and Jobs Act (TCJA) passed on December 22, 2017 lowered the US corporate tax rate to 21% from 35% effective January 1, 2018. The lowering of the US corporate income tax rate to 21% required revaluation of the Company's net deferred tax asset as of December 31, 2017 that resulted in a one-time non-cash tax charge of US\$ 0.6m included in the Company's 2017 results. In addition, the TCJA includes a provision that will result in a one-time deemed repatriation tax on the Company's cumulative unrepatriated foreign profits primarily relating to historical profits earned by the Company's UK

entity. The Company has elected the option to pay the deemed repatriation tax over an eight-year period. The final amount of the tax was \$148,000.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance.

Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units. Earnings per common share has been computed based on the following:

	Year ended December 31,	
	2018	2017
	US\$ 000's	US\$ 000's
Income available to stockholders	21,543	18,416
Basic weighted shares outstanding	56,276,778	56,233,912
Net dilutive effect of stock options and restricted stock units	451,573	401,697
Diluted weighted average shares outstanding	56,728,351	56,635,609

The Company had 56,288,329 shares outstanding at December 31, 2018. Earnings per share at December 31, 2018 and 2017 are as follows:

	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.38	0.33
Diluted earnings per share	0.38	0.33
Basic adjusted net income per share	0.38	0.31
Diluted adjusted net income per share	0.38	0.31

Consolidated Balance Sheets

As of December 31, 2018 and 2017

	As of December 31,	
	2018	2017
	US\$ 000	US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	28,233	19,038
Accounts receivable – net	10,231	11,026
Inventories	10,813	8,697
Prepaid expenses and other assets	1,501	2,540
Total current assets	50,778	41,301
Accounts receivable, non-current - net	346	54
Property, plant and equipment – net	12,001	12,306
Goodwill	2,878	2,878
Deferred tax asset	850	1,596
Other assets	226	268
Total assets	67,079	58,403
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	2,146	3,181
Accrued expenses	6,391	6,103
Income tax payable	3,012	1,740
Total current liabilities	11,549	11,024
Other liabilities	430	513
Total liabilities	11,979	11,537
Stockholders' equity		
Preferred stock, US\$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, US\$.001 par value, 80,000,000 shares authorized, 56,425,598 and 56,425,598 shares issued and 56,288,329 and 56,242,121 shares outstanding at December 31, 2018 and 2017, respectively	26	26
Less: treasury stock, 137,269 shares as of December 31, 2018 and 183,477 shares as of December 31, 2017 at cost	(326)	(407)
Additional paid in capital	16,969	17,169
Retained earnings	41,255	32,007
Other comprehensive loss	(2,824)	(1,929)
Total stockholders' equity	55,100	46,866
Total liabilities and stockholders' equity	67,079	58,403

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
	except per share data	except per share data
Revenue	94,001	85,634
Cost of sales	40,375	36,870
Gross profit	53,626	48,764
Operating expenses		
Sales, marketing and customer support	11,059	10,426
Engineering and product development	1,357	1,222
General and administrative	12,037	11,683
Total operating expenses	24,453	23,331
Operating income	29,173	25,433
Other income (expense)		
Interest expense	(54)	(80)
Interest income	188	262
Foreign exchange impact	(42)	477
Other	(191)	(354)
Income before income taxes	29,074	25,738
Provision for income taxes	7,531	7,322
Net income	21,543	18,416
Other comprehensive income		
Cumulative translation adjustment	(895)	37
Comprehensive income	20,648	18,453
Earnings per common share		
Earnings per share - basic	0.38	0.33
Earnings per share - diluted	0.38	0.33
Weighted average number of common shares outstanding		
Basic	56,276,778	56,233,912
Diluted	56,728,351	56,635,609

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017

	<u>Common Stock</u>			<u>Treasury Stock</u>		Retained earnings US\$ 000	Other Comprehensive income (loss) US\$ 000	Total Stockholders' Equity US\$ 000
	Shares	Amount US\$ 000	Additional Paid-In Capital US\$ 000	Shares	Amount US\$ 000			
Balance - January 1, 2017	56,425,598	26	22,112	221,996	(483)	27,453	(1,966)	47,142
Cumulative translation adjustment	-	-	-	-	-	-	37	37
Net income	-	-	-	-	-	18,416	-	18,416
Stock based compensation	-	-	467	-	-	-	-	467
Dividend	-	-	-	-	-	(13,862)	-	(13,862)
Treasury stock	-	-	(76)	(38,519)	76	-	-	-
RSUs settled for cash	-	-	(464)	-	-	-	-	(464)
Stock options settled for cash	-	-	(4,870)	-	-	-	-	(4,870)
Balance - December 31, 2017	56,425,598	26	17,169	183,477	(407)	32,007	(1,929)	46,866
Cumulative translation adjustment	-	-	-	-	-	-	(895)	(895)
Net income	-	-	-	-	-	21,543	-	21,543
Stock based compensation	-	-	489	-	-	-	-	489
Dividend	-	-	-	-	-	(12,295)	-	(12,295)
Treasury stock	-	-	(81)	(46,208)	81	-	-	-
RSUs settled for cash	-	-	(525)	-	-	-	-	(525)
Stock options settled for cash	-	-	(83)	-	-	-	-	(83)
Balance - December 31, 2018	56,425,598	26	16,969	137,269	(326)	41,255	(2,824)	55,100

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
Cash flows from operating activities:		
Net income	21,543	18,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	748	1,754
Depreciation and amortization	1,175	2,100
Bad debt	150	141
Amortization of deferred financing costs	-	38
Stock based compensation	489	467
Loss on disposal of property and equipment	114	203
Working capital changes:		
Accounts receivable	353	(4,657)
Inventories	(2,116)	63
Prepaid expenses and other assets	1,039	(112)
Other assets	41	(239)
Accounts payable, accrued expenses and other liabilities	(963)	1,282
Income taxes payable	1,271	566
Net cash provided by operating activities	23,844	20,022
Cash flows from investing activities:		
Proceeds from sale of property and equipment	47	-
Property and equipment purchases	(803)	(1,959)
Net cash used in investing activities	(756)	(1,959)
Cash flows from financing activities:		
Payment of dividend	(12,295)	(13,862)
RSUs settled for cash	(525)	(464)
Stock options settled for cash	(83)	(4,870)
Payments under capital leases	(95)	(58)
Repayment of notes payable	-	(1,024)
Net cash used in financing activities	(12,998)	(20,278)
Effect of exchange rates on cash and cash equivalents	(895)	37
Net increase (decrease) in cash and cash equivalents	9,195	(2,178)
Cash and cash equivalents:		
Beginning of year	19,038	21,216
End of year	28,233	19,038

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017

1. Organization and description of business

Nature of business

Somero Enterprises, Inc. (the “Company” or “Somero”) designs, assembles, remanufactures, sells and distributes concrete levelling, contouring and placing equipment, related parts and accessories, and training services worldwide. Somero’s Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA. Sales and service offices are located in Chesterfield, England; Shanghai, China; and New Delhi, India.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain prior year amounts have been reclassified to conform to the current year presentation.

Principles of consolidation

The consolidated financial statements include the accounts of Somero Enterprises, Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash and cash equivalents

Cash includes cash on hand, cash in banks, and temporary investments with a maturity of three months or less when purchased. The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company’s accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2018 and 2017, the allowance for doubtful accounts was approximately US\$ 785,000 and US\$ 859,000, respectively. Bad debt expense was US\$ 150,000 and US\$ 141,000 in 2018 and 2017, respectively.

Inventories

Inventories are stated using the first in, first out (“FIFO”) method at the lower of cost or net realizable value (“NRV”). Provision for potentially obsolete or slow-moving inventory is made based on management’s analysis of inventory levels and future sales forecasts. As of December 31, 2018 and 2017, the provision for obsolete and slow moving inventory was US\$ 343,000 and US\$ 110,000, respectively.

Deferred financing costs

Deferred financing costs incurred in relation to long-term debt are reflected net of accumulated amortization and are amortized over the expected remaining term of the debt instrument. These financing costs are amortized using the effective interest method.

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to twelve years, which is their estimated period of economic benefit. Intangible assets are fully amortized as of December 31, 2017.

Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company's prior sale from Dover Corporation to The Gores Group in 2005. The Company did not incur a goodwill impairment loss for the years ended December 31, 2018 nor December 31, 2017.

Revenue recognition

The Company adopted ASC 606 "Revenue from contracts with customers" on January 1, 2018. The new revenue recognition standard requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

The Company generates revenue by selling equipment, parts, accessories, service agreements and training. The Company recognizes revenue for equipment, parts and accessories when it satisfies the performance obligation of transferring the control to the customer. For product sales where shipping terms are FOB shipping point, revenue is recognized upon shipment. For arrangements which include FOB destination shipping terms, revenue is recognized upon delivery to the customer. The Company recognizes the revenue for service agreements and training once the service or training has occurred.

The change in accounting principle from ASC 605 to ASC 606 did not materially impact the amount of revenue recognized in the Company's financial statements.

Prior to the adoption of this standard the Company recognized revenue in accordance with ASC 605-10, "Revenue Recognition in Financial Statements". Revenue was recognized when persuasive evidence of an arrangement existed, delivery or service had occurred, the sale price was fixed or determinable and receipt of payment was probable.

The Company believes its previous recognition policy as related to the sale of equipment and training are consistent with the new revenue recognition standard defined within FASB ASC 606 which requires unique performance obligations be recognized upon satisfaction of the performance obligation at the point in time when the control of goods is transferred to the customer (sale of equipment) or services are performed (training).

During the year ended December 31, 2018 there was US\$ 719,000 of revenue recognized during the period from customer deposit liabilities (deferred contract revenue).

As of December 31, 2018 there are US\$ 315,000 in customer deposit liabilities for advance payments received during the period for contracts expected to ship in 2019. As of the year ended December 31,

2018 and 2017, there are no significant contract costs such as sales commissions or costs deferred. Interest income on financing arrangements is recognized as interest accrues, using the effective interest method.

Warranty liability

The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product. Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience.

	2018 US\$ 000	2017 US\$ 000
Balance, January 1	(551)	(547)
Warranty charges	475	447
Accruals	(537)	(451)
Balance, December 31	(613)	(551)

Property, plant, and equipment

Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 3 to 10 years for machinery and equipment.

Income taxes

The Company determines income taxes using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items reflected in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered 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. Deferred tax assets are reduced by a valuation allowance, if necessary, to the extent that it appears more likely than not, that such assets will be unrecoverable.

The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. This involves a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award.

Compensation expense related to stock-based payments was US\$ 489,000 and US\$ 467,000 for the years ended December 31, 2018 and 2017, respectively. The Company settled US\$ 83,000 and US\$ 4,870,000 in stock options for cash during the years ended December 31, 2018 and 2017, respectively. In addition, the Company settled US\$ 525,000 and US\$ 464,000 in restricted stock units for cash and conversion to common shares during the years ended December 31, 2018 and 2017, respectively.

Transactions in and translation of foreign currency

The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. The preparation of the consolidated financial statements requires the translation of these financial statements to USD. Balance sheet amounts are translated at period-end exchange rates and the statement of comprehensive income accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income. The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange gain (loss) in the accompanying consolidated statements of comprehensive income.

Comprehensive income

Comprehensive income is the combination of reported net income and other comprehensive income ("OCI"). OCI is changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources not included in net income.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued using the treasury stock method. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units. Earnings per common share have been computed based on the following:

	Year ended December 31,	
	2018	2017
	US\$ 000's	US\$ 000's
Income available to stockholders	21,543	18,416
Basic weighted shares outstanding	56,276,778	56,233,912
Net dilutive effect of stock options and restricted stock units	451,573	401,697
Diluted weighted average shares outstanding	56,728,351	56,635,609

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term debt approximates fair value due to the variable nature of the interest rates under our Credit Facility.

The FASB has issued accounting guidance on fair value measurements. This guidance provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it.

This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy.

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3 – Unobservable inputs for the asset or liability which are supported by little or no market activity and reflect the Company's assumptions that a market participant would use in pricing the asset or liability.

		Quoted prices in active markets identical assets <i>Level 1</i>	Significant other observable inputs <i>Level 2</i>	Significant other unobservable inputs <i>Level 3</i>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Year ended December 31, 2017				
Asset:				
Non-recurring Goodwill	2,878			2,878
Year ended December 31, 2018				
Asset:				
Non-recurring Goodwill	2,878			2,878

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing US GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The company adopted the new standard using the full retrospective approach.

In February 2016, the FASB released Accounting Standard Update 2016-02, Leases. The new guidance requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. Lessees are required to recognize a single lease cost, amortized on a straight-line basis over the lease term for operating leases. All cash payments are to be classified as operating activities on the cash flow statement. The update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Lessees are required to measure leases under the new guidance at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating adoption of the guidance.

Correction of Immaterial Error in Previously Issued Financial Statements

In December 2018, the Company recorded an out of period adjustment to correct an error related to its U.S. federal taxes for fiscal years 2016, 2015 and 2014. The income reported in the U.S. federal tax filings for these years was erroneously offset by foreign currency translation adjustments resulting in an under reporting of taxable income and corresponding income taxes. The cumulative effect of this error was an

understatement of income taxes of approximately US\$ 958,000 and approximately US\$ 263,000 of interest and penalties.

The Company concluded that this error was not material to any of the previously issued consolidated financial statements. Accordingly, the Company adjusted retained earnings and income taxes payable as of January 1, 2017 by approximately US\$ 1,028,000 in aggregate for the taxes, interest and penalties related to years 2016, 2015 and 2014. In 2018, the Company recognized additional interest and penalties related to years 2018 and 2017 of approximately US\$ 193,000 in aggregate, which is included in the provision for income taxes in the accompanying consolidated financial statements. The adjustment did not impact operating income or cash flows for the years presented in the accompanying consolidated financial statements.

3. Inventories

Inventories consisted of the following at December 31, 2018 and 2017:

	Year ended December 31,	
	2018	2017
	US \$ 000	US \$ 000
Raw material	3,634	3,159
Finished goods and work in process	3,617	4,007
Remanufactured	3,562	1,531
Total	10,813	8,697

4. Goodwill and intangible assets

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value.

The results of the qualitative assessment indicated that Goodwill was not impaired as of December 31, 2018 and 2017, and that the value of patents was not impaired as of December 31, 2017.

The following table reflects other intangible assets:

	Weighted average Amortization Period	Year ended December 31,	
		2018	2017
		US\$ 000's	US\$ 000's
<i>Capitalized cost</i>			
Patents	12 years	18,538	18,538
<i>Accumulated amortization</i>			
Patents	12 years	18,538	18,538
<i>Net carrying costs</i>			
Patents	12 years	-	-

Amortization expense associated with the intangible assets in each of the years ended December 31, 2018 and 2017 was approximately US\$ 0 and US\$ 901,000, respectively. Net intangible assets were fully amortized in 2017.

5. Property, plant, and equipment

Property, plant, and equipment consist of the following at December 31:

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
Land	864	864
Building and improvements	11,128	10,545
Machinery and equipment	5,022	5,098
	17,014	16,507
Less: accumulated depreciation and amortization	(5,013)	(4,201)
	12,001	12,306

Depreciation expense for the years ended December 31, 2018 and 2017 was approximately US\$ 1,175,000 and US\$ 1,199,000, respectively.

6. Line of credit and note payable

In February 2016, the Company entered into an amended credit facility which consists of a US\$ 10.0m secured revolving line of credit that will mature in February 2021. The interest rate on the revolving credit line is based on the one-month LIBOR rate plus 1.25%. No amounts were drawn under the secured revolving credit line in the years ended December 31, 2018 or in 2017. The Company's credit facility is secured by substantially all its business assets. On January 31, 2017, the Company paid off the remaining outstanding principal totaling US\$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand.

Interest

Interest expense for the years ended December 31, 2018 and 2017 was approximately US\$ 54,000 and US\$ 80,000, respectively, and relates primarily to interest costs on leased vehicles.

7. Retirement program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company's matching contributions vest immediately. The Company contributed approximately US\$ 591,000 to the savings and retirement plan during 2018 and contributed US\$ 462,000 during 2017.

8. Operating leases

The Company leases property, vehicles, and office equipment under leases accounted for as operating leases without renewal options. Total rent expenses for the years ended December 31, 2018 and 2017, was approximately US\$ 412,000 and US\$ 434,000, respectively. Future minimum payments are as follows for the years ended:

	December 31
	US\$ 000
2019	312
2020	310
2021	162
2022	105
2023	99
Thereafter	891
	1,879

When a lease requires fixed escalations of the minimum lease payments, rental expense is recognized on a straight-line basis over the term of the lease.

9. Capital leases

Interest rates on capital leases are variable and range from 3.6% to 5.9% at December 31, 2018. Future minimum payments are as follows for the years ended:

	December 31, 2018 US\$ 000
2019	88
2020	51
2021	29
2022	10
Thereafter	-
	<u>178</u>

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31, 2018 US\$ 000	2017 US\$ 000
Cash paid for interest	34	42
Cash paid for taxes	6,013	4,944
Capital lease liabilities assumed	206	190

11. Business and credit concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2018 and 2017, the Company had two customers which represented 23% and 15% of total accounts receivable, respectively.

12. Commitments and contingencies

The Company has entered into employment agreements with certain members of senior management. The terms of these are for renewable one-year periods and include non-compete and non-disclosure provisions as well as provide for defined severance payments in the event of termination or change in control.

The Company is subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its consolidated financial statements.

13. Income taxes

Income Tax Provision

	Year ended December 31, 2018 US\$ 000	2017 US\$ 000
Current Income Tax		
Federal	\$5,194	\$4,336
State	844	326
Foreign	745	906
Total current income tax expense	<u>6,783</u>	<u>5,568</u>

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
Deferred tax expense		
Federal	632	1,688
State	11	66
Foreign	105	-
Total deferred tax expense	748	1,754
Total tax provision	\$7,531	\$7,322

As of December 31, 2018 and 2017, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
Deferred tax assets		
Bad Debt Allowance	185	195
Inventory Reserve	81	25
Accrued Expenses	242	207
UNICAP - Sec 263(A)	170	108
Intangible Assets	485	1,086
UK Intangibles	105	134
Stock Compensation	178	326
Italy – NOL	129	76
Other	147	237
Total deferred tax assets	1,722	2,394
Deferred tax liabilities		
Prepaid Insurance	(124)	(138)
Fixed Assets	(619)	(660)
Total deferred tax liabilities	(743)	(798)
Valuation Allowance	(129)	-
Total net deferred tax Asset (Liability)	850	1,596

A reconciliation of the income tax provision with the amount of tax computed by applying the federal statutory rate to pretax income follows:

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
Consolidated Income Before Tax	29,074	25,738
Statutory Rate	21.00%	34.00%
Statutory tax expense	6,105	8,751
State Taxes	677	259
Foreign Taxes	(115)	(171)
Permanent differences due to share based compensation	(87)	(1,630)
Permanent differences due to other items	112	(395)
Foreign Derived Intangible Income	(471)	-
Tax Credits	(19)	-
Change in Valuation Allowance	129	-
Permanent Due to US Tax Rate Change	-	645
Change in Reserve	193	-
Out of Period Adjustment	860	-
Other	147	(137)
Tax expense	7,531	7,322

As of December 31, 2018, the Company has US\$ 536,000 of foreign loss carryforwards with an indefinite carryforward life. Management assesses the recoverability of our deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and are required to establish and maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed. As of December 31, 2018, management has determined that a valuation allowance is currently needed against the Company's net operating loss carryforward deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We have open years for the tax year 2012 and forward. The Company has open years related to United Kingdom filings for the tax year 2017, and open years related to Italian filings for tax years 2013 forward.

The FASB adopted Staff Accounting Bulletin 118 ("SAB 118") as part of US GAAP. SAB 118 provides additional clarification regarding the application of ASC Topic 740 in situations where a company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. As of December 31, 2017, the Company reported that a provisional amount of the Transition Tax was not able to be determined. Additional guidance was released during the SAB 118 remeasurement period, and the Company completed the analysis which resulted in additional expense of US\$ 148,000 in the current year related to adjustments to the transition tax.

The Company adopted the accounting standard for uncertain tax positions, ASC 740-10, and as required by the standard, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Increases or decreases to the unrecognized tax benefits could result from management's belief that a position can or cannot be sustained upon examination based on subsequent information or potential lapse of the applicable statute of limitation for certain tax positions.

Unrecognized tax benefits – January 1, 2017	958
Increases from positions taken during prior periods	-
Increases from positions taken during current period	-
Settled positions	-
Lapse of statute of limitations	-
Unrecognized tax benefits - December 31, 2017	958
Increases from positions taken during prior periods	-
Increases from positions taken during current period	-
Settled positions	-
Lapse of statute of limitations	-
Unrecognized tax benefits - December 31, 2018	958

The amount of unrecognized tax benefits as of December 31, 2018, if recognized, would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as "Income tax payable" in the Company's Consolidated Balance Sheets as the Company does not intend to make significant payments in the next twelve months. The interest and penalties related to the unrecognized tax benefits is US\$ 263,000 and US\$ 156,000 as of December 31, 2018 and December 31, 2017 respectively. Interest and penalties related to unrecognized tax benefits are included in the provision for income tax expense.

14. Revenues by geographic region

The Company sells its product to customers throughout the world. The breakdown by location is as follows:

	Year ended December 31,	
	2018	2017
	US\$ 000	US\$ 000
United States and U.S. possessions	64,661	55,504
Canada	-	2,365
Rest of World	29,340	27,765
Total	94,001	85,634

15. Stock based compensation

The Company has stock based compensation plans which are described below. The compensation cost that has been charged against income for the plans was approximately US\$ 489,000 and US\$ 467,000 for the years ended December 31, 2018 and 2017, respectively. The income tax effect recognized for stock based compensation was US\$ 0.1m and US\$ 1.8m, respectively, for the years ended December 31, 2018 and 2017.

Stock options

An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan, which was cancelled when the old plan was abandoned. The grants have a three-year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining stock options will only be issued for new key employees and superior performance.

Options granted under the Plan have a term of up to 10 years and generally vest over a three-year period beginning on the date of the grant. Options under the Plan must be granted at a price not less than the fair market value at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected term at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as our Company has limited trading history and the expected life is based on the average of the life of the options of 10 years and an average vesting period of 3 years. No new options were granted in 2018 and 2017.

A summary of options activity is presented below:

Options	Stock options	Weighted-average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2017	1,586,361	0.44	3.00	3,667,918
Granted	-	-	-	-
Exercised	(1,569,221)	0.44	2.10	(4,870,392)
Forfeited	-	-	-	-
Outstanding at December 31, 2017	17,140	0.47	2.13	61,195
Exercisable at December 31, 2017	17,140	0.47	2.13	61,195
Outstanding at January 1, 2018	17,140	0.47	2.13	61,195
Granted	-	-	-	-
Exercised	(17,140)	0.47	1.13	(61,195)
Forfeited	-	-	-	-
Outstanding at December 31, 2018	-	-	-	-
Exercisable at December 31, 2018	-	-	-	-

Options exercised in 2018 and 2017 were settled for cash of US\$ 0.1m and US\$ 4.9m, respectively. As of December 31, 2018 and 2017, the Company's stock options have all been vested with no unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company's stock option plan.

Restricted Stock Units

The Company also regularly issues restricted stock units to employees and non-executive Directors, subject to Board approval. A summary of restricted stock unit activity in 2017 and 2018 is presented below:

	Shares	Grant date fair market value US\$
Outstanding at January 1, 2017	417,353	836,271
Granted	121,063	419,241
Vested or settled for cash	(151,444)	(292,007)
Forfeited	-	-
Outstanding at December 31, 2017	386,972	963,505
Outstanding at January 1, 2018	386,972	963,505
Granted	200,971	1,062,130
Vested and settled for cash	(117,316)	(230,371)
Forfeited	(30,151)	(129,878)
Outstanding at December 31, 2018	440,476	1,665,386

RSUs settled for cash were US\$ 0.5m in 2018 and US\$ 0.5m in 2017.

As of December 31, 2018, there was US\$ 909,000 total unrecognized compensation cost related to non-vested restricted stock units. Restricted stock unit expense is being recognized over the three-year vesting period. The weighted average remaining vesting period is 1.33 years.

Equity Bonus Plan

The Company has an Equity Bonus Plan, under which eligible senior managers may choose to receive a percentage of their annual performance bonus in shares of common stock. In March 2017, the Company issued 38,519 shares of common stock, valued at US\$ 133,000 at the time of grant, for awards under the 2016 Equity Bonus Plan, which allowed up to 25% of annual performance bonuses to be settled in shares of common stock. In March 2018, the Company issued 34,157 shares of common stock, valued at US\$ 180,000 at the time of grant, for awards under the 2017 Equity Bonus Plan, which allowed up to 50% of annual performance bonuses to be settled in shares of common stock.

16. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US\$ 1.4m to be paid in December 2018 and early 2019 based upon the Company meeting certain profitability targets.

17. Subsequent events

Line Dragon Business and Asset Acquisition

On January 15, 2019, the Company purchased the business assets of Line Dragon, LLC ("Line Dragon"), a Pennsylvania based provider of concrete placing and hose dragging equipment to the concrete industry. Line Dragon complements Somero's SP-16 Concrete Line Pulling & Placing System. The acquisition includes all the business assets of Line Dragon, including all patents associated with Line Dragon equipment, in exchange for \$2M in cash paid at closing with on-going performance payments based on a percentage of future sales of the Company's concrete line pulling and placing equipment.

Dividend

In recognition of Somero's strong performance and the Board of Directors' confidence in the continued growth of the Company, the Board approved an increase to the dividend payout ratio to 50% of adjusted net income and is pleased to announce a final 2018 dividend of 13.5 US cents per share that will be payable on April 26, 2019 to shareholders on the register at April 5, 2019. Together with the interim dividend paid in October 2018 of 5.5 US cents per share, this represents a full year regular dividend to shareholders of 19.0 US cents per share, a 23% increase over the previous year. In addition, due to the strength of the Company's cash position at the end of 2018, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has adopted a new supplementary dividend policy and approved a supplemental dividend of 11.7 US cents per share that will be paid together with the final 2018 dividend on April 26, 2019 to shareholders on the register at April 5, 2019. The combined dividend payment on April 26, 2019 will total 25.2 US cents per share, representing a total dividend payment of US\$ 14.2m.

Equity Bonus Plan

In February 2019, the Board approved the 2018 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 50% of their 2018 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2018 Equity Bonus Plan in 2019.

Annual General Meeting

Notice is given that the Annual General Meeting of Stockholders (the "AGM") of the Company will be held in Fort Myers on June 11, 2019 at 9:00 am local time.