Primoris Services Corp
Form 10-Q
November 08, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2011**

**OR**

**o 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 0001-34145**

# Primoris Services Corporation

(Exact name of registrant as specified in its charter)

| **Delaware**<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | **20-4743916**<br>(I.R.S. Employer<br>Identification No.) |
|---|---|
| **2100 McKinney Avenue, Suite 1500**<br>**Dallas, Texas**<br>(Address of Principal Executive Offices) | **75201**<br>(Zip Code) |

Registrant s telephone number, including area code: **(214) 740-5600**

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

| Large accelerated filer o | Accelerated filer x |
|---|---|
| Non-accelerated filer o<br>Do not check if a smaller reporting company. | Smaller reporting company o |

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

At November 7, 2011, 51,059,132 shares of the registrant s common stock were outstanding.

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**PRIMORIS SERVICES CORPORATION**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**PRIMORIS SERVICES CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(In Thousands, Except Share Amounts)**

**(Unaudited)**

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 95,744 | $ 115,437 |
| Short term investments | 23,000 | 26,000 |
| Customer retention deposits and restricted cash | 21,369 | 12,518 |
| Accounts receivable, net | 157,924 | 208,145 |
| Costs and estimated earnings in excess of billings | 60,474 | 17,275 |
| Inventory | 32,444 | 25,599 |
| Deferred tax assets | 10,397 | 9,533 |
| Prepaid expenses and other current assets | 7,632 | 12,925 |
| Total current assets | 408,984 | 427,432 |
| Property and equipment, net | 123,646 | 123,167 |
| Investment in non-consolidated entities | 17,051 | 18,805 |
| Intangible assets, net | 33,048 | 40,633 |
| Goodwill | 94,179 | 94,179 |
| Total assets | $ 676,908 | $ 704,216 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 84,953 | $ 89,484 |
| Billings in excess of costs and estimated earnings | 145,554 | 205,268 |
| Accrued expenses and other current liabilities | 71,381 | 55,126 |
| Dividends payable | 1,532 | 1,234 |
| Current portion of capital leases | 4,537 | 4,286 |
| Current portion of long-term debt | 9,658 | 9,623 |
| Current portion of subordinated debt | 14,931 | 15,833 |
| Current portion of contingent earnout liabilities | 3,450 | |
| Liabilities of discontinued operations | 733 | 733 |
| Total current liabilities | 336,729 | 381,587 |
| Long-term capital leases, net of current portion | 7,499 | 7,354 |
| Long-term debt, net of current portion | 30,648 | 38,428 |
| Long-term subordinated debt, net of current portion | 11,216 | 27,378 |
| Deferred tax liabilities | 15,864 | 12,500 |
| Contingent earnout liabilities | 9,097 | 24,591 |
| Other long-term liabilities | 1,862 | 4,147 |

| | | | | |
|---|---|---|---|---|
| Total liabilities | | 412,915 | | 495,985 |
| Commitments and contingencies | | | | |
| Stockholders equity | | | | |
| Common stock $.0001 par value, 90,000,000 shares authorized, 51,059,132 and 49,359,600 issued and outstanding at September 30, 2011 and December 31, 2010 | | 5 | | 5 |
| Additional paid-in capital | | 150,003 | | 136,245 |
| Retained earnings | | 113,985 | | 71,981 |
| Total stockholders equity | | 263,993 | | 208,231 |
| Total liabilities and stockholders equity | $ | 676,908 | $ | 704,216 |

See Accompanying Notes to Condensed Consolidated Financial Statements

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**PRIMORIS SERVICES CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(In Thousands, Except Per Share Amounts)**

**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Revenues | $ 375,483 | $ 230,357 | $ 1,087,084 | $ 608,526 |
| Cost of revenues | 323,362 | 202,477 | 952,927 | 529,537 |
| Gross profit | 52,121 | 27,880 | 134,157 | 78,989 |
| Selling, general and administrative expenses | 20,103 | 14,580 | 60,425 | 43,849 |
| Operating income | 32,018 | 13,300 | 73,732 | 35,140 |
| Other income (expense): | | | | |
| Income from non-consolidated entities | 2,079 | 1,366 | 7,305 | 4,090 |
| Foreign exchange gain (loss) | (214) | 80 | (250) | 266 |
| Other expense | (314) | (333) | (917) | (964) |
| Interest income | 39 | 151 | 297 | 484 |
| Interest expense | (1,516) | (1,345) | (4,240) | (3,872) |
| Income before provision for income taxes | 32,092 | 13,219 | 75,927 | 35,144 |
| Provision for income taxes | (12,744) | (5,642) | (29,839) | (13,782) |
| Net income | $ 19,348 | $ 7,577 | $ 46,088 | $ 21,362 |
| **Earnings per share:** | | | | |
| Basic | $ 0.38 | $ 0.17 | $ 0.91 | $ 0.53 |
| Diluted | $ 0.38 | $ 0.17 | $ 0.90 | $ 0.47 |
| **Weighted average common shares outstanding:** | | | | |
| Basic | 51,054 | 44,887 | 50,596 | 40,499 |
| Diluted | 51,054 | 45,528 | 51,085 | 45,486 |

See Accompanying Notes to Condensed Consolidated Financial Statements

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**PRIMORIS SERVICES CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In Thousands)**

**(Unaudited)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2011** | **2010** |
| Cash flows from operating activities: | | |
| Net income | $ 46,088 | $ 21,362 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 17,838 | 12,575 |
| Amortization of intangible assets | 7,585 | 4,291 |
| Loss (gain) on sale of property and equipment | 191 | (1,352) |
| Income from non-consolidated entities | (7,305) | (4,090) |
| Non-consolidated entity distributions | 9,059 | 8,480 |
| Net deferred tax (assets) liabilities | 2,500 | (1,598) |
| Contingent earnout liabilities | 2,756 | 964 |
| Changes in assets and liabilities: | | |
| Customer retention deposits and restricted cash | (8,851) | (2,333) |
| Accounts receivable | 50,221 | (40,489) |
| Costs and estimated earnings in excess of billings | (43,199) | (11,921) |
| Inventory, prepaid expenses and other current assets | (1,552) | (4,693) |
| Accounts payable | (4,531) | 14,246 |
| Billings in excess of costs and estimated earnings | (59,714) | 8,276 |
| Accrued expenses and other current liabilities | 16,255 | 2,418 |
| Other long-term liabilities | (2,285) | 3,985 |
| Net cash provided by operating activities | 25,056 | 10,121 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (16,903) | (17,779) |
| Proceeds from sale of property and equipment | 2,373 | 2,306 |
| Investment in non-consolidated entities | | (18,065) |
| Sale of short-term investments | 39,000 | 48,058 |
| Purchase of short-term investments | (36,000) | (44,000) |
| Net cash used in investing activities | (11,530) | (29,480) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of long-term debt | 2,500 | 20,000 |
| Repayment of capital leases | (3,582) | (2,853) |
| Repayment of long-term debt | (10,245) | (7,290) |
| Repayment of subordinated debt | (17,064) | (10,384) |
| Proceeds from issuance of common stock | 988 | |
| Proceeds from exercise of warrants for the issuance of common stock | | 17,822 |
| Repurchase of warrants | | (277) |
| Purchase of Unit Purchase Option | (2,030) | |
| Dividends paid | (3,786) | (3,229) |
| Cash distributions to James shareholders | | (1,966) |
| Net cash provided by (used in) financing activities | (33,219) | 11,823 |
| Cash flows from discontinued operations: | | |
| Operating activities | | (874) |
| Net cash used in discontinued operations | | (874) |

| | | | | |
|---|---|---|---|---|
| Net change in cash and cash equivalents | | (19,693) | | (8,410) |
| Cash and cash equivalents at beginning of the period | | 115,437 | | 90,004 |
| Cash and cash equivalents at end of the period | $ | 95,744 | $ | 81,594 |

See Accompanying Notes to Condensed Consolidated Financial Statements

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**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (Unaudited) | |
| **Cash paid during the period for:** | | |
| Interest | $ 3,647 | $ 3,872 |
| Income taxes | $ 21,038 | $ 15,323 |

**SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (Unaudited) | |
| **Non-cash activities:** | | |
| Obligations incurred for the acquisition of property and equipment | $ 3,978 | $ |
| Accrued dividends declared | $ 1,532 | $ 1,173 |

See Accompanying Notes to Condensed Consolidated Financial Statements

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**PRIMORIS SERVICES CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars In Thousands, Except Per Share Amounts)**

**(Unaudited)**

**Note 1 Business Activity**

***Organization and operations*** Primoris Services Corporation and its wholly-owned subsidiaries ARB, Inc. ( ARB ), ARB Structures, Inc., All Day Electric Company, Inc. (a 50% owned entity in 2010 and 100% owned entity in 2011), OnQuest, Inc., Born Heaters Canada, ULC, Cardinal Contractors, Inc., GML Coatings, LLC, Stellaris, LLC, Rockford Corporation ( Rockford ), Alaska Continental Pipeline, Inc. (formerly a division of Rockford), James Construction Group LLC ( JCG ), and Cardinal Mechanical, L.P. (incorporated as a division of JCG in April 2011), collectively, are engaged in various construction and product engineering activities. The Company s underground and directional drilling operations install, replace and repair natural gas, petroleum, telecommunications and water pipeline systems. The Company s industrial, civil and engineering operations build and provide maintenance services to industrial facilities including power plants, petrochemical facilities, and other processing plants, and construct multi-level parking structures, engage in the construction of highways, bridges and other environmental construction activities. The Company is incorporated in the State of Delaware and in 2011 moved its corporate headquarters from Lake Forest, California to 2100 McKinney Avenue, Suite 1500, Dallas, Texas 75201.

On November 8, 2010, the Company entered into a Stock Purchase Agreement (the Rockford Agreement ) to acquire all of the outstanding shares of privately held Rockford Corporation ( Rockford ). Upon completion of the transaction on November 12, 2010, Rockford became a wholly owned subsidiary of Primoris. Based in Hillsboro (Portland), Oregon, Rockford specializes in the construction of large diameter natural gas and liquid pipelines and related facilities.

Unless specifically noted otherwise, as used throughout these condensed consolidated financial statements, Primoris , or the Company , we , our , us or its refers to the business, operations and financial results of the Company and its wholly-owned subsidiaries.

**Note 2 Basis of Presentation**

***Interim Consolidated Financial Statements*** The interim condensed consolidated financial statements for the three-month and nine-month periods ended September 30, 2011 and 2010 have been prepared in accordance with Rule 10-01 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the Exchange Act ). As such, certain disclosures, which would substantially duplicate the disclosures contained in the Company s latest audited consolidated financial statements, have been omitted. This Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 (the Third Quarter 2011 Report ) should be read in concert with the Company s Annual Report on Form 10-K, filed on March 16, 2011, which contains the Company s audited consolidated financial statements for the year ended December 31, 2010.

The interim financial information for the three-month and nine-month periods ended September 30, 2011 and 2010 is unaudited and has been prepared on the same basis as the audited consolidated financial statements. However, the financial statements contained in this Third Quarter 2011 Report do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America ( GAAP ) for audited financial statements. In the opinion of management, the unaudited information includes all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the interim financial information. Certain amounts in prior periods have been reclassified to conform to the present period financial statement presentation.

***Revenue recognition*** The Company typically structures contracts as unit-price, time and material, fixed-price or cost reimbursable plus fee. Revenue is recognized on the cost-on-total-cost percentage-of-completion method for fixed price contracts. In the percentage-of-completion method, estimated contract income and resulting revenue is calculated based on the total costs incurred to date as a percentage of total estimated costs. Total estimated costs, and thus contract revenues and income, can be impacted by changes in productivity, scheduling, the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project s completion and thus the timing of revenue recognition. If an estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full at the time of the estimate.

The caption *Costs and estimated earnings in excess of billings* represents the excess of contract revenues recognized under the percentage-of-completion method over billings to date. For those contracts in which billings exceed contract revenues recognized to date, the excesses are included in the caption *Billings in excess of costs and estimated earnings* .

Revenues on cost-plus and time and materials contracts are recognized as the related work is completed.

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In accordance with applicable terms of construction contracts, certain retainage amounts may be withheld by customers until completion and acceptance of the project. Final payments of the majority of such amounts are expected to be received in the following operating cycle.

***Customer Concentration*** The Company operates in multiple industry segments encompassing the construction of commercial, industrial and public works infrastructure assets throughout primarily the United States. Typically, the top ten customers in any one calendar year generate revenues in excess of 50% of total revenues and frequently consist of a different group of customers in each year.

During the three and nine months ended September 30, 2011, revenues generated by Rockford under the Ruby contract were $48.3 million and $264.7 million, respectively, which represented 12.9% and 24.3%, respectively, of total revenues during the periods. The Ruby contract is part of a large project for the construction of a natural gas pipeline from Wyoming to Oregon. The contract is a cost reimbursable plus a fixed fee arrangement and was substantially complete by the end of the third quarter 2011. Additionally, work for the Louisiana Department of Transportation generated $66.4 million and $191.3 million for the three and nine months ending September 30, 2011, respectively, which represented 17.7% and 17.6% of total revenues for the respective periods.

***Inventory*** Inventory consists of uninstalled contract materials and expendable construction equipment that will be used in construction projects. Inventory is valued at the lower of cost, using first-in, first-out method, or market.

**Note 3 Recent Accounting Pronouncements**

*Fair Value Disclosures*

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, which provides amendments to FASB ASC Topic 820, *Fair Value Measurement*. The objective of ASU 2011-04 is to create common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards ( IFRS ). The amendments clarify existing fair value measurement and disclosure requirements and make changes to particular principles or requirements for measuring or disclosing information about fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of this standard is not expected to have an impact on the Company s consolidated financial statements but may result in additional disclosures.

*Goodwill Impairment Testing*

In December 2010, the FASB issued ASU 2010-28, *Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ( ASU 2010-28 ). ASU 2010-28 modifies Step 1 of the annual goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, if it is more likely than not that goodwill impairment exists, an entity is required to perform Step 2 of the goodwill impairment test. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating existence of an impairment. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company adopted this standard on January 1, 2011, which did not result in a material impact on our financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill or Impairment* ( ASU 2011-08 ). ASU 2011-08 provides an option to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that the fair value is not less than its carrying amount, then it is not necessary to perform the two-step impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company will determine whether to adopt this pronouncement during the fourth quarter 2011. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

*Comprehensive Income*

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income: Presentation of Comprehensive Income*, which provides amendments to FASB ASC Topic 220, *Comprehensive Income*. ASU 2011-05 requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and should be applied retrospectively. The adoption of this standard is not expected to have an impact on the Company s consolidated financial statements.

*Multiemployer Retirement Plans*

In September 2011, the FASB issued ASU No. 2011-09, *Compensation Retirement Benefits Multiemployer Plans (Subtopic 715-80) Disclosures about an Employer s Participation in a Multiemployer Plan* , which provides amendments to FASB ASC Topic 715, *Compensation Retirement Benefits (ASU 2011-09)*. ASU 2011-09 requires that employers with multiemployer pension plans and multiemployer other postretirement benefit plans provide additional quantitative and qualitative disclosures. The disclosures include (1) the significant multiemployer plan names and identifying numbers; (2) the level of the Company s participation and contributions to the listed plans and whether the contributions represent more than 5% of the plan s total contributions; (3) the financial health, funded status and changes or surcharges imposed on the Company by the plan; (4) the nature of the Company s commitment to the plan, including expiration dates of collective-bargaining agreements and whether minimum contributions are to be made to the plans. If public information on a plan is not available, additional disclosures are required. ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2011. The amendment should be applied retrospectively for all prior periods presented. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

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**Note 4 Fair Value Measurements**

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value in GAAP and requires certain disclosures about fair value measurements. ASC Topic 820 addresses fair value GAAP for financial assets and financial liabilities that are re-measured and reported at fair value at each reporting period and for non-financial assets and liabilities that are re-measured and reported at fair value on a non-recurring basis.

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

The following table uses the fair value hierarchy levels identified under ASC Topic 820 to present the Company s financial assets that are required to be measured at fair value at September 30, 2011 and December 31, 2010:

| | | | Fair Value Measurements at Reporting Date | | |
|---|---|---|---|---|---|
| | Amount Recorded on Balance Sheet | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets at September 30, 2011:** | | | | | |
| Cash and cash equivalents | $ | 95,744 | $ 95,744 | | |
| Short-term investments | $ | 23,000 | $ 23,000 | | |
| **Assets at December 31, 2010:** | | | | | |
| Cash and cash equivalents | $ | 115,437 | $ 115,437 | | |
| Short-term investments | $ | 26,000 | $ 26,000 | | |

Short-term investments consist primarily of Certificates of Deposit ( CDs ) purchased through the CDARS (Certificate of Deposit Account Registry Service) program in order to provide Federal Deposit Insurance Corporation backing of the CDs.

In addition to the assets listed in the table, other financial instruments of the Company consist of accounts receivable, accounts payable and certain accrued liabilities. These financial instruments generally approximate fair value based on the short-term nature of these instruments. The carrying value of the Company s long-term debt approximates fair value based on comparison with current prevailing market rates for loans of similar risks and maturities.

**Note 5 Accounts Receivable**

The following is a summary of the Company s accounts receivable at the dates shown:

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| Contracts receivable, net of allowance for doubtful accounts of $273 for September 30, 2011 and $200 for December 31, 2010 | $ | 139,148 | $ | 185,299 |
| Retention - to be paid at project completion | | 17,557 | | 20,057 |
| | | 156,705 | | 205,356 |
| Due from affiliates | | | | 200 |
| Other accounts receivable | | 1,219 | | 2,589 |
| | $ | 157,924 | $ | 208,145 |

Amounts due from affiliates primarily relate to amounts due from related parties (See Note 7 *Equity Method Investments* and Note 13 *Related Party Transactions* ) for the performance of construction contracts. Contract revenues earned from related parties were approximately $991 and $79 for the three months, and $5,431 and $1,367 for the nine months ended September 30, 2011 and 2010, respectively.

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**Note 6 Costs and Estimated Earnings on Uncompleted Contracts**

Costs and estimated earnings on uncompleted contracts consist of the following at:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Costs incurred on uncompleted contracts | $ 2,637,397 | $ 2,339,551 |
| Provision for estimated loss on uncompleted contracts | 2,290 | 577 |
| Gross profit recognized | 259,884 | 245,974 |
| | 2,899,571 | 2,586,102 |
| Less: billings to date | (2,984,651) | (2,774,095) |
| | $ (85,080) | $ (187,993) |

This net amount is included in the accompanying consolidated balance sheet under the following captions:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Costs and estimated earnings in excess of billings | $ 60,474 | $ 17,275 |
| Billings in excess of costs and estimated earnings | (145,554) | (205,268) |
| | $ (85,080) | $ (187,993) |

**Note 7 Equity Method Investments**

WesPac Energy LLC

On July 1, 2010, the Company acquired a 50% membership interest in WesPac Energy LLC, a Nevada limited liability company ( WesPac ). Pursuant to the terms of the Membership Interest Purchase Agreement, dated July 1, 2010, by and among the Company, WesPac and Kealine Holdings, LLC ( Kealine ), a Nevada limited liability company and the sole limited liability company member of WesPac prior to the closing, we acquired 50% of the issued and outstanding limited liability company membership interests of WesPac for total cash consideration of $18,065. Kealine holds the remaining 50% membership interest in WesPac. We have no future obligation to make any additional investments into WesPac. All key investment, management and operating decisions of WesPac will require unanimous approval from a management committee equally represented by Kealine and us.

Founded in 1998 and based in Irvine, California, WesPac develops pipeline and terminal projects in the United States, Canada and Mexico, by building, expanding or enhancing infrastructure in the areas of pipeline transportation and storage efficiency enhancement. To date, WesPac has successfully developed, financed and brought to completion several such projects. The Company believes the ownership interest in WesPac will broaden our exposure to a variety of pipeline, terminal and energy-related infrastructure opportunities across North America.

The following is a summary of the WesPac financial position and results as of and for the periods ended:

| | | September 30, 2011 | | December 31, 2010 |
|---|---|---|---|---|
| **Wespac Energy, LLC** | | | | |
| Balance sheet data | | | | |
| Assets | $ | 24,550 | $ | 30,161 |
| Liabilities | | 419 | | 4,248 |
| Net assets | $ | 24,131 | $ | 25,913 |
| Company s equity investment in venture | $ | 17,023 | $ | 17,915 |

| | Three months ended September 30, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2011 | | 2010 | | 2011 | | 2010 |
| Earnings data: | | | | | | | | |
| Revenue | $ | 3,862 | $ | | $ | 3,862 | $ | |
| Expenses | $ | 5,575 | $ | 174 | $ | 5,644 | $ | 174 |
| Earnings before taxes | $ | (1,713) | $ | (174) | $ | (1,782) | $ | (174) |

During the three months ended September 30, 2011, WesPac determined that certain projects no longer had value to the joint venture and expensed the $1.8 million impaired costs incurred to date.

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St. Bernard Levee Partners

The Company purchased a 30% interest in St. Bernard Levee Partners ( Bernard ) in the fourth quarter 2009 for $300 and accounts for this investment under the equity method. Bernard engages in construction activities in Louisiana. Bernard distributed $8,942 and $15,990 to the Company during the nine months ended September 30, 2011 and 2010, respectively, as calculated under the joint venture agreement. The following is a summary of the financial position and results as of and for the periods ended:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| ***St. Bernard Levee Partners*** | | |
| Balance sheet data | | |
| Assets | $ 10,698 | $ 21,981 |
| Liabilities | 10,610 | 17,291 |
| Net assets | $ 88 | $ 4,690 |
| Company s equity investment in venture | $ 26 | $ 878 |

| | Three months ended September 30, 2011 | Three months ended September 30, 2010 | Nine months ended September 30, 2011 | Nine months ended September 30, 2010 |
|---|---|---|---|---|
| Earnings data: | | | | |
| Revenue | $ 10,737 | $ 51,603 | $ 66,447 | $ 159,625 |
| Expenses | $ 4,342 | $ 45,214 | $ 37,775 | $ 140,819 |
| Earnings before taxes | $ 6,395 | $ 6,389 | $ 28,672 | $ 18,806 |
| Company s equity in earnings | $ 2,901 | $ 1,445 | $ 8,090 | $ 4,450 |

Otay Mesa Power Partners

During 2007, the Company established a joint venture, Otay Mesa Power Partners, for the sole purpose of constructing a power plant near San Diego, California. The project was completed in 2010, and a distribution of $106 was received in March 2011.

**Note 8 Business Combinations**

The November 12, 2010 acquisition of Rockford was accounted for using the acquisition method of accounting. The fair value of the consideration transferred to selling shareholders was $79,623.

As part of the acquisition, the Company agreed to issue additional cash and common stock to the sellers, contingent upon Rockford meeting certain operating performance targets for the fourth quarter 2010 and for the periods ending December 31, 2011 and 2012. The 2010 earnout target for the fourth quarter 2010 was achieved and in March 2011, the Company issued 494,095 shares of common stock to the sellers. The Company determined that the full 2011 earnout target was achieved during the nine months ended September 30, 2011 and has reflected the full

value of the $6,900 liability on the balance sheet as of September 30, 2011. As discussed in Note 12 *Contingent Earnout Liabilities*, the estimated fair value of the remaining 2012 contingency was $5,647 and $4,076 at September 30, 2011 and December 31, 2010, respectively.

There have been no changes in the preliminary estimates of the fair value of the acquired assets and liabilities of Rockford during the nine months ended September 30, 2011. The Company is continuing its evaluation of the fair value of the construction equipment acquired and expects to complete the final determination of the estimated fair value of the acquisition prior to the end of 2011.

*Supplemental Unaudited Pro Forma Information for the three and nine months ended September 30, 2010*

The following pro forma information for the three and nine months ended September 30, 2010 presents the results of operations as if the Rockford acquisition had occurred at the beginning of 2010. The supplemental pro forma information has been adjusted to include:

- the pro forma impact of amortization of intangible assets and depreciation of property, plant and equipment, based on the purchase price allocation;

- the pro forma impact of interest expense on the subordinated $16.7 million promissory note, and assumes no early pay down of the promissory note;

- the pro forma impact of the expense associated with the amortization of the discount for the fair value of the contingent consideration for potential earnout liabilities that may be achieved in 2011 and 2012;

- the pro forma tax effect of both the income before income taxes for Rockford and the Rockford pro forma adjustments, calculated using a tax rate of 39.8% for the three and nine months ended September 30, 2010; and

- the pro forma weighted average shares outstanding include 1,605,709 shares of common stock issued as part of the acquisition, plus the 494,095 shares of stock earned as a result of achieving the fourth quarter 2010 earnout target.

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The pro forma results are presented for illustrative purposes only and are not necessarily indicative of, or intended to represent, the results that would have been achieved had the transaction been completed on January 1, 2010. The pro forma results do not reflect any operating efficiencies and associated cost savings that the Company may have achieved with respect to the combined companies.

| | Three months ended September 30, 2010 | | Nine months ended September 30, 2010 | |
|---|---|---|---|---|
| Revenues | $ | 279,414 | $ | 688,535 |
| Income before provision for income taxes | $ | 12,961 | $ | 29,905 |
| Net income | $ | 7,421 | $ | 18,208 |
| | | | | |
| Weighted average common shares outstanding: | | | | |
| Basic (1) | | 46,987 | | 42,599 |
| Diluted (1) | | 47,628 | | 47,586 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $ | 0.16 | $ | 0.43 |
| Diluted | $ | 0.16 | $ | 0.38 |

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(1) The adjustment to weighted average shares outstanding excludes the potential impact of any shares of common stock that may be issued contingent upon meeting certain financial targets at the end of 2011 and 2012.

**Note 9 Intangible Assets**

At September 30, 2011 and December 31, 2010, intangible assets totaled $33,048 and $40,633, respectively, net of amortization. The table summarizes the intangible asset categories, amounts and the average amortization periods, which are generally on a straight-line basis, as follows:

| | Amortization Period | | September 30, 2011 | | December 31, 2010 |
|---|---|---|---|---|---|
| Tradename | 5 to 10 years | $ | 19,362 | $ | 21,078 |
| Non-compete agreements | 5 years | $ | 5,061 | $ | 6,155 |
| Customer relationships | 5 to 10 years | $ | 7,741 | $ | 8,428 |
| Backlog | 0.75 to 2.25 years | $ | 884 | $ | 4,972 |
| | Total | $ | 33,048 | $ | 40,633 |

Amortization expense of intangible assets was $2,053 and $1,413 for the three months ended September 30, 2011 and 2010, respectively, and amortization expense for the nine months ended September 30, 2011 and 2010 was $7,586 and $4,291, respectively. Estimated future amortization expense for intangible assets is as follows:

| For the Years Ending December 31, | Estimated Intangible |
|---|---|

| | | Amortization Expense |
|---|---|---|
| 2011 (remaining three months) | $ | 1,665 |
| 2012 | | 5,033 |
| 2013 | | 4,655 |
| 2014 | | 4,620 |
| 2015 | | 3,545 |
| Thereafter | | 13,530 |
| | $ | 33,048 |

**Note 10 Accounts Payable and Accrued Liabilities**

At September 30, 2011 and December 31, 2010, accounts payable includes retention amounts of approximately $13,786 and $14,382, respectively. These amounts due to subcontractors have been retained pending contract completion and customer acceptance of jobs.

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The following is a summary of accrued expenses and other current liabilities at:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Payroll and related employee benefits | $ 35,913 | $ 31,282 |
| Insurance, including self-insurance reserves | 21,196 | 15,992 |
| Provision for estimated losses on uncompleted contracts | 2,290 | 577 |
| Corporate income taxes and other taxes | 6,186 | 1,781 |
| Accrued overhead cost | 1,611 | 1,409 |
| Other | 4,185 | 4,085 |
| | $ 71,381 | $ 55,126 |

**Note 11 Credit Arrangements**

As of September 30, 2011, the Company has a Loan and Security Agreement (the Agreement ) with The PrivateBank and Trust Company (the Lender ) for a revolving line of credit in the total aggregate amount of $35,000. The maturity dates, as amended, are as follows:

- a revolving loan in the amount of $20,000 (the Revolving Loan A ), with a maturity date of October 26, 2014; and
- a revolving loan in the amount of $15,000 (the Revolving Loan B ), with a maturity date of October 25, 2012.

Under the Agreement, the Lender agreed to issue letters of credit of up to $15,000 under Revolving Loan A. As of September 30, 2011 and December 31, 2010, total commercial letters of credit outstanding under Revolving Loan A totaled $3,074 and $4,339, respectively. Other than the commercial letters of credit, there were no borrowings under these two lines of credit during the period January 1, 2010 through September 2011. At September 30, 2011, available borrowing capacity under Revolving Loan A was $16,926 and $15,000 under Revolving Loan B.

Any principal amount of each of Revolving Loan A and Revolving Loan B will bear interest at either: (i) LIBOR plus an applicable margin as specified in the Agreement, or (ii) the prime rate announced by the Lender plus an applicable margin as specified in the Agreement. The principal amount of any loan bearing interest at LIBOR plus an applicable margin may not be prepaid without being subject to certain penalties. There is no prepayment penalty for any loan bearing interest at the prime rate announced by the Lender plus an applicable margin.

All loans made by the Lender under the Agreement are secured by our assets, including, among others, our cash, inventory, goods, equipment (excluding equipment subject to certain permitted liens) and accounts receivable. Certain of our subsidiaries have executed joint and several guaranties in favor of the Lender for all amounts under the Agreement. The Agreement and the line of credit facilities contain various restrictive covenants, including, among others, restrictions on investments, capital expenditures, minimum tangible net worth and debt service coverage requirements. The Company was in compliance with the bank covenants as of September 30, 2011.

The Company has a credit facility with a Canadian bank for purposes of issuing commercial letters of credit in Canada, for an amount of up to $10,000 in Canadian dollars. The credit facility has an annual renewal and provides for the issuance of commercial letters of credit for a term of up to five years. The facility provides for an annual fee of 1% for any issued and outstanding commercial letters of credit. Letters of credit can be denominated in either Canadian or U.S. dollars. As of September 30, 2011 and December 31, 2010, commercial letters of credit outstanding under this credit facility totaled $4,069 and $4,994 in Canadian dollars, respectively. As of September 30, 2011, the available borrowing capacity under this credit facility was $5,931 in Canadian dollars.

The Company entered into an agreement with Bank of the West for the purpose of issuing commercial letters of credit, whereby the Company agrees to maintain a cash balance at the bank in an amount equal to the full amount of the letters of credit. As of September 30, 2011, the amount of letters of credit with a maturity of twelve months and the related restricted cash amounted to $3,823.

At the time of the JCG acquisition on December 18, 2009, the Company assumed outstanding letters of credit of $5,600 under an amended credit agreement that expired on February 28, 2010. Upon termination of the credit agreement, the Company made a cash deposit as replacement for the letters of credit.

***Subordinated Promissory Note Rockford***. In connection with the acquisition of Rockford, the Company executed an unsecured promissory note (the Rockford Note ) on November 12, 2010 in favor of the sellers of Rockford with an initial principal amount of $16,712. The principal amount of the Rockford Note was divided into two portions. Approximately $9,669 of the Rockford Note was designated as Note A and approximately $7,043 of the note was designated as Note B. Note B was paid in full on March 10, 2011.

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Note A is due and payable on October 31, 2013 and bears interest at different rates until maturity, averaging 6.67% over its life. During the first 12 months, Note A bore interest at a rate equal to 5%. For months 13 through 24, it bears interest at a rate equal to 7%. Thereafter and until maturity, Note A bears interest at a rate equal to 8%. Payments of principal and interest are payable monthly in an amount of $269 principal plus interest over 36 months. At September 30, 2011, a total of $6,983 was outstanding.

Note A may be prepaid in whole or in part at any time. If we complete an equity financing while Note A is outstanding, we have agreed to use 15% of the net proceeds in excess of $10 million to prepay a portion or all of Note A. In addition, we have agreed to use 33% of any cash proceeds raised in connection with incurrence of any indebtedness (other than under a bank line of credit or to finance operating expenses, equipment and capital expenditures), to prepay a portion or all of Note A.

While any amount is outstanding under Note A, we have agreed to not take certain actions without the prior written consent of the Rockford Note holders representative. We have agreed not to: (i) incur any obligations for seller financing associated with the acquisition of a business without subordinating it to the Rockford Note, (ii) make any payment on outstanding indebtedness that has been subordinated to the Rockford Note, (iii) make any distribution or declare or pay any dividends (except for regular, quarterly dividends), and (iv) consummate any transaction that would require prepayment under the Rockford Note, if we are not permitted to do so by our senior lender and/or surety companies.

The sellers have entered into subordination agreements with our senior lender, bonding agency and the holders of the JCG Note, pursuant to which the Rockford Note is subordinated to amounts owed to our senior lender, bonding agencies and the holders of the JCG Note.

***Subordinated Promissory Note JCG***. In connection with the acquisition of JCG, the Company executed an unsecured promissory note on December 18, 2009 in favor of the sellers of JCG with an initial principal amount of $53,500. The JCG Note is due and payable on December 15, 2014 and bears interest at differing rates until maturity. For the first 9 months of the term of the note, the JCG Note bore interest at an annual rate equal to 5%. For months 10 through 18, the JCG Note bore interest at an annual rate of 7%. For months 19 until the maturity date, the JCG Note bears interest at an annual rate of 8%. Payments of principal and interest will be made on an amortizing basis over 60 months. The JCG Note is subordinated to amounts owed to our commercial banks for lines of credit and to our bonding agencies. At September 30, 2011, a total of $19,164 was outstanding.

The JCG Note may be prepaid in whole or in part at any time. If we complete an equity financing while the JCG Note is outstanding, we have agreed to use the first $10 million of the net proceeds, plus 75% of the net proceeds in excess of $10 million, to prepay a portion or all of the JCG Note. In addition, we have agreed to use 33% of any cash proceeds raised in connection with incurrence of any indebtedness (other than under a bank line of credit or to finance operating expenses, equipment and capital expenditures), to prepay a portion or all of the JCG Note. As long as more than $10,000 is outstanding, we have agreed to not take certain actions without the prior written consent of the JCG Note holders, including, among others, purchase, acquire, redeem or retire any shares of our common stock.

**Note 12 Contingent Earnout Liabilities**

***Rockford Earnout Consideration***

As part of the Rockford acquisition in November 2010, the Company agreed to issue additional cash and common stock to the sellers, contingent upon Rockford meeting certain operating performance targets for certain periods.

*2010 Earnout Period*

The earnout target established for the fourth quarter 2010 was achieved in March 2011. The liability of $4,600 was recorded as of December 31, 2010. In March 2011, the Company issued 494,095 shares of common stock to the sellers, reduced the liability and increased Stockholders Equity.

*2011 Earnout Period*

If Rockford s financial performance as measured by income before interest, taxes, depreciation and amortization ( EBITDA ), as defined in the purchase agreement, for the fifteen month period from October 1, 2010 through December 31, 2011 is at least $34.0 million, we have agreed to pay $2.3 million in cash and issue an additional number of shares of our common stock equal to $2.3 million divided by the average closing price of our common stock, as reported on NASDAQ, for the 20 business days prior to December 31, 2011 (a total of $4.6 million). Alternatively, if Rockford s financial performance for the fifteen month period from October 1, 2010 and through December 31, 2011 is at least $38.0 million, we have agreed to pay a cash amount of $3.45 million and issue a number of shares of our common stock equal to $3.45 million divided by the average closing price of our common stock, as reported on NASDAQ, for the 20 business days prior to December 31, 2011 (a total of $6.9 million).

The Company determined that the full 2011 earnout target was achieved during the nine months ended September 30, 2011 and has reflected the full value of the $6,900 liability on the balance sheet as of September 30, 2011. As a result, a charge of $650 was recorded in Selling, General and Administration expense in September 2011.

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*2012 Earnout Period*

If Rockford s financial performance measured by EBITDA, as defined in the purchase agreement, for calendar year 2012 is at least $14.0 million, we have agreed to pay $6.9 million in cash.

The estimated fair value of the contingent consideration for the earnout liabilities were as follows:

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| 2010 earnout | $ | $ 4,600 |
| 2011 earnout | 6,900 | 5,715 |
| 2012 earnout | 5,647 | 4,076 |
| | $ 12,547 | $ 14,391 |

The $2,756 increase in the estimated fair value of the 2011 and 2012 liability for the nine months ended September 30, 2011 resulted in a $1,840 non-cash charge to Selling, General and Administrative expenses ( SG&A ) and $916 non-cash charge to Other Expense. The charge to SG&A reflects the operational-related change in the fair value of the liability and the Other Expense charge reflects the time value impact on the fair value amounts.

***JCG Earnout Consideration***

As part of the JCG acquisition in December 2009, the Company agreed to issue an additional number of shares of common stock equal to $10.2 million if JCG s EBITDA, as defined in the purchase agreement, was equal to or greater than $35 million for the year ending December 31, 2010. The earnout contingency was achieved and a liability of $10.2 million was recorded as of December 31, 2010. In March 2011, the Company issued 1,095,602 shares of common stock to the sellers, eliminated the liability and increased Stockholders Equity.

**Note 13 Related Party Transactions**

Primoris has entered into various transactions with Stockdale Investment Group, Inc. ( SIGI ). Brian Pratt, our Chief Executive Officer, President and Chairman of the Board of Directors and our largest stockholder, also holds a majority interest in SIGI and is the chairman and a director of SIGI. John M. Perisich, our Senior Vice President and General Counsel, is secretary of SIGI.

In 2010, the Company entered into a $6.0 million agreement to construct a wastewater facility for Pluris, LLC, a private company in which Brian Pratt holds the majority interest. During the nine months ending September 30, 2011, the Company recognized revenues of $5,430. The construction is expected to be completed by December 31, 2011. The transaction was reviewed and approved in advance by the Audit

Committee of the Board of Directors of the Company.

Primoris leases properties located in Bakersfield, Pittsburg and San Dimas, California, and in Pasadena, Texas from SIGI. The leases expire from October 2015 through June 2021 and provide for annual cost inflation factors. During the nine months ended September 30, 2011 and 2010, the Company paid $681, and $668, respectively, in lease payments to SIGI for the use of these properties.

Primoris leases a property from Roger Newnham, one of our stockholders and a manager of our subsidiary Born Heaters Canada. The property is located in Calgary, Canada. During the nine months ended September 30, 2011 and 2010, Primoris paid $210 and $188, respectively, in lease payments to Mr. Newnham for the use of this property. The term of the lease is through December 31, 2014.

As a result of the November 2010 acquisition of Rockford, the Company entered into a lease for property from Lemmie Rockford, one of our stockholders. The property is located in Toledo, Washington. During the nine months ended September 30, 2011, Primoris paid $68 in lease payments to Mr. Rockford for the use of this property. The lease expires on January 15, 2015.

**Note 14 Income Taxes**

To determine its quarterly provision for income taxes, the Company uses an estimated annual effective tax rate which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company is subject to tax. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rate from quarter to quarter. The Company recognizes interest and penalties related to uncertain tax positions, if any, as an income tax expense.

The Company s effective income tax rate for the three months and nine months ended September 30, 2011 was 39.7% and 39.3%, respectively. These rates differ from the U.S. federal statutory rate of 35% primarily as the result of the impact of state taxes offset by the benefit of the Domestic Production Activity Deduction .

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Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial reporting basis and tax basis of the Company s assets and liabilities. 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. The completed filing of the 2010 federal and state tax returns resulted in a reclassification of deferred tax and tax liability amounts as of September 30, 2011.

The Internal Revenue Service ( IRS ) is presently conducting an examination of our federal income tax returns for 2008 and 2009. The tax years 2008 through 2010 remain open to examination by the IRS. The statute of limitations of state and foreign jurisdictions vary generally between 3 to 5 years. Accordingly, the tax years 2006 through 2010 generally remain open to examination by the other major taxing jurisdictions in which the Company operates.

**Note 15 Dividends and Earnings Per Share**

The Company has paid or declared cash dividends during 2011 as follows:

- On November 5, 2010, the Company declared a cash dividend of $0.025 per common share, payable to stockholders of record on December 31, 2010. The dividend, totaling $1,234 was paid on January 15, 2011.

- On March 10, 2011, the Company declared a cash dividend of $0.025 per common share, payable to stockholders of record on March 31, 2011. The dividend, totaling $1,276 was paid on April 15, 2011.

- On May 6, 2011, the Company declared a cash dividend of $0.025 per common share, payable to stockholders of record on June 30, 2011. The dividend, totaling $1,276 was paid on July 15, 2011.

- On August 4, 2011, the Company declared a cash dividend of $0.03 per common share, payable to stockholders of record on September 30, 2011. The dividend, totaling $1,532 was paid on October 14, 2011.

The table below presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2011 and 2010:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Numerator:** | | | | |
| Net income | $ 19,348 | $ 7,577 | $ 46,088 | $ 21,362 |
| **Denominator:** | | | | |
| Weighted average shares for computation of basic earnings per share | 51,054 | 44,887 | 50,596 | 40,499 |
| Dilutive effect of warrants and units (1) | | 641 | 52 | 1,136 |

| | | | | |
|---|---|---|---|---|
| Dilutive effect of contingently issuable shares (2) | | | 437 | 793 |
| Dilutive effect of preferred stock (3) | | | | 3,058 |
| Weighted average shares for computation of diluted earnings per share | 51,054 | 45,528 | 51,085 | 45,486 |
| | | | | |
| Basic earnings per share | $ 0.38 | $ 0.17 | $ 0.91 | $ 0.53 |
| | | | | |
| Diluted earnings per share | $ 0.38 | $ 0.17 | $ 0.90 | $ 0.47 |

(1) Represents the dilutive effect of common stock and warrants available under the Unit Purchase Option ( UPO ). See Note 16 *Stockholders Equity* .

(2) Represents the dilutive effect of the following contingency arrangements which were met at the end of each year, but for which shares of common stock were not issued until the following year:

a) A total of 2,499,975 shares of the Company s common stock issued on March 25, 2010 for attainment of certain financial targets per the merger agreement between Rhapsody and Former Primoris.

b) The effect of 74,906 shares of common stock issued in March 2010 for attainment of certain financial targets per the merger agreement between Cravens and the Company. The seller and the Company entered into an agreement during 2010 terminating all future earnout contingencies.

c) A total of 1,095,646 shares issued to JCG s sellers in March 2011 as a result of JCG meeting its defined performance target per the merger agreement between JCG and the Company.

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d) A total of 494,095 shares issued to Rockford s former stockholders in March 2011 as a result of Rockford meeting a defined performance target in 2010. The purchase agreement provided for additional performance targets for 2011 and 2012. The Company determined that the 2011 target was met as of September 30, 2011, which provided for a cash payment and a stock payout. The stock component of the earnout is based on the Company s average closing stock price (as defined in the purchase agreement) during December 2011 and the number of shares cannot yet be calculated. The 2012 contingent earnout will be paid in cash if the target is met.

(3) Represents the dilutive effect of the conversion of preferred stock into 8,185,278 shares of common stock. The conversion was approved at a special meeting of the stockholders held on April 12, 2010.

**Note 16 Stockholders Equity**

***Common stock*** In March 2011, a total of 1,095,646 shares of common stock were issued to the JCG sellers as a result of JCG meeting a defined performance target in 2010. A total of 494,095 shares were issued to Rockford s former stockholders in March 2011 as a result of Rockford meeting a defined performance target in 2010.

The Rockford purchase agreement provides for an additional 2011 performance target which includes the potential issuance of common stock. As of September 30, 2011, the Company determined that the 2011 target was met, which provides for a cash payment of $3.45 million and the issuance of shares of the Company s common stock valued at $3.45 million. Since the stock component of the earnout is based on the average closing price of the Company s common stock, as reported on NASDAQ, for the 20 business days prior to December 31, 2011, the number of shares to be issued cannot yet be calculated.

As part of the quarterly compensation of the non-employee members of the Board of Directors, the Company issued 14,825 shares of common stock on August 2, 2011.

In March 2011, the Company issued 94,966 shares of stock purchased by our employees under the Primoris Long-term Retention Plan.

***Unit Purchase Option*** **s** At the time of our initial public offering in October 2006, our underwriter, Early Bird Capital, purchased a total of 450,000 Unit Purchase Options ( UPO ). Each UPO provided the holder the right to purchase one share of common stock and one warrant. The UPO expired on October 2, 2011, and the terms of the UPO allowed for a cashless conversion of one share of common stock for $8.80 per share. On June 29, 2011, the underwriter exercised all of their 450,000 UPO on a cashless basis. Using the previous day s closing price of $13.31 per share, the exercise would have resulted in the issuance of 152,480 shares of common stock. In lieu of issuing these shares, the parties negotiated a cash payment of approximately $2.0 million, which was made on June 30, 2011 and recorded as a reduction of additional paid-in capital on the balance sheet.

**Note 17 Commitments and Contingencies**

***Leases*** The Company leases certain property and equipment under non-cancellable operating leases which expire at various dates through 2019. The leases require the Company to pay all taxes, insurance, maintenance and utilities and are classified as operating leases in accordance with ASC Topic 840 Leases .

Total lease expense during the three and nine months ended September 30, 2011 amounted to $2,237 and $6,858, respectively, including amounts paid to related parties of $325 and $959, respectively. Total lease expense during the three and nine months ended September 30, 2010 amounted to $2,475 and $7,411, including amounts paid to related parties of $281 and $856, respectively.

***Letters of credit*** At September 30, 2011, the Company had letters of credit outstanding of $10,838 and at December 31, 2010, the Company had letters of credit outstanding of $9,306. The outstanding amounts include the U.S. dollar equivalents for letters of credit issued in Canadian dollars.

***Self-Insurance*** The Company s insurance policies for general, auto and workers compensation are subject to self-insured retentions or deductible levels ranging from $100 to $250 per occurrence. The Company also has employee health care benefit plans for most employees not subject to collective bargaining agreements. The health care benefit plans are subject to a specific stop loss of $150 per individual per year.

Losses under the insurance programs are accrued based on management s estimates of the ultimate liability for claims reported and an estimate of claims incurred but not reported. These insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury and the extent of damage. The accruals are based upon known facts and historical trends, and management, with the assistance of third-party actuaries, believes such accruals are adequate.

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***Litigation*** The Company is subject to claims and legal proceedings arising out of its business. Management believes that the Company has meritorious defenses to such claims. Although management is unable to ascertain the ultimate outcome of such matters, after review and consultation with outside counsel and taking into consideration relevant insurance coverage and related deductibles, management believes that the outcome of these matters will not have a materially adverse effect on the consolidated financial position of the Company.

***Bonding*** At September 30, 2011 and December 31, 2010, the Company had bid and completion bonds issued and outstanding totaling approximately $1,035,036 and $849,288, respectively.

**Note 18 Reportable Operating Segments**

The Company provides services in three operating segments: the East Construction Services segment, the West Construction Services segment and the Engineering segment.

The East Construction Services segment incorporates the JCG construction business, located primarily in the southeastern United States. The segment also includes the businesses located in the Gulf Coast region of the United States, including Cardinal Mechanical, L.P., which was recently incorporated as a division of JCG, and the Cardinal Contractors, Inc. business.

The West Construction Services segment includes the construction services performed by entities located in the western United States, primarily in the states of California and Oregon. Entities included in West Construction Services are ARB, ARB Structures, Inc., Stellaris, LLC, and Rockford for 2011.

The Engineering segment includes the results of OnQuest, Inc. and Born Heaters Canada, ULC.

In the following tables, all intersegment revenues and gross profit, which were immaterial, have been eliminated.

***Segment Revenues***

Revenue by segment for the three months ended September 30, 2011 and 2010 were as follows:

| | For the three months ended September 30, | |
|---|---|---|
| | 2011 | 2010 |
| Segment | Revenue | Revenue |

| | | % of Segment Revenue | | % of Segment Revenue |
|---|---|---|---|---|
| East Construction Services | $ 130,682 | 34.8% | $ 126,876 | 55.0% |
| West Construction Services | 230,904 | 61.5% | 86,594 | 37.6% |
| Engineering | 13,897 | 3.7% | 16,887 | 7.4% |
| Total | $ 375,483 | 100.0% | $ 230,357 | 100.0% |

Revenue by segment for the nine months ended September 30, 2011 and 2010 were as follows:

| | For the nine months ended September 30, | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| Segment | Revenue | % of Segment Revenue | Revenue | % of Segment Revenue |