Primoris Services Corp
Form 10-K
February 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

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: 001-34145

Primoris Services Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-4743916** (I.R.S. Employer Identification No.)
2100 McKinney Avenue, Suite 1500 **Dallas, Texas** (Address of principal executive offices)	**75201** (Zip Code)

(214) 740-5600

(Registrant s telephone number, including area code)

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

Title of each class	**Name of exchange on which registered**
Common Stock, $0.0001 par value	The NASDAQ Stock Market LLC

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

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

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

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 Noo

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

Form 10-K or any amendment to this Form 10-K. 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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	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 Nox

The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $794.7 million based upon the closing price of such common equity as of June 30, 2015 (the last business day of the Registrant s most recently completed second fiscal quarter). On February 29, 2016, there were 51,752,201 shares of common stock, par value $0.0001, outstanding. For purposes of this Annual Report on Form 10-K, in addition to those stockholders which fall within the definition of affiliates under Rule 405 of the Securities Act of 1933, holders of ten percent or more of the Registrant s common stock are deemed to be affiliates.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), which are subject to the safe harbor created by those sections. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of regulation and the economy, generally. Forward-looking statements include all statements that are not historical facts and usually can be identified by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, predicts, projects, should, will, would or similar expressions.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in detail in Item 1A. Risk Factors . You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect.

Given these uncertainties, you should not place undue reliance on forward-looking statements. Forward-looking statements represent our management s beliefs and assumptions only as of the date of this Annual Report on Form 10-K. We assume no obligation to update forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available.

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PART I

ITEM 1. BUSINESS

Business Overview

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

Historically, we have longstanding relationships with major utility, refining, petrochemical, power and engineering companies. We have completed major underground and industrial projects for a number of large natural gas transmission and petrochemical companies in the western United States, as well as significant projects for our engineering customers. We enter into a large number of contracts each year and the projects can vary in length from several weeks to as long as 48 months for completion on larger projects. Although we have not been dependent upon any one customer, in any year a small number of customers tend to constitute a substantial portion of our total revenues.

The Company s common stock trades on the NASDAQ Select Global Market under the symbol PRIM . Founded as ARB, Inc. (ARB) in 1960, we became organized as Primoris in Nevada in 2003, and we became a Delaware public company in July 2008 when we merged with a special purpose acquisition company (a non-operating shell company).

Our service capabilities and geographic footprint have expanded primarily through the following four significant acquisitions over the last six years.

In 2009, we acquired James Construction Group, LLC, a privately-held Florida limited liability company (JCG). Headquartered in Baton Rouge, Louisiana, JCG is one of the largest general contractors based in the Gulf Coast states and is engaged in highway, industrial and environmental construction, primarily in Louisiana, Texas, Mississippi and Florida. JCG and its predecessor company have been in business for over 80 years.

In 2010, we acquired Rockford Corporation (Rockford). Rockford specializes in construction of large diameter natural gas and liquid pipeline projects and related facilities throughout the United States.

In 2012, we purchased Sprint Pipeline Services, L.P. (Sprint), a Texas based company headquartered near Houston, which we renamed as Primoris Pipeline Services (PPS) in March 2015. PPS provides a comprehensive range of pipeline construction, maintenance, upgrade, fabrication and specialty services primarily in the southeastern United States.

In November 2012, we purchased Q3 Contracting, Inc., a privately-held Minnesota corporation (Q3C). Based in Little Canada, Minnesota (north of St. Paul), Q3C specializes in small diameter pipeline and gas distribution construction, restoration and other services, primarily in the upper Midwest region of the United States.

In addition to these primary acquisitions, we have entered into several agreements to purchase smaller businesses or business assets to start a business as we continue to seek opportunities to expand our skill sets or operating locations. These include The Saxon Group (Saxon) and The Silva Group (Silva) (merged with JCG) which we acquired in 2012. During 2014 we acquired Vadnais Trenchless Services, Inc. (Vadnais) and made three small acquisitions during the third quarter, consisting of the purchase of the net assets of Surber Roustabout, LLC (Surber), Ram-Fab, LLC (Ram-Fab) and Williams Testing, LLC (Williams). In February 2015, we acquired the net assets of Aevenia, Inc. We continue to evaluate potential acquisition candidates especially those with strong management teams with good reputations.

Reportable Segments

The Company segregates its business into three operating segments: the West Construction Services segment (West segment), the East Construction Services segment (East segment) and the Energy segment (Energy segment).

The West segment includes the underground and industrial operations and construction services performed by ARB, ARB Structures, Inc., Rockford, Q3C, and Vadnais. ARB and ARB Structures perform work primarily in California; while, Rockford operates throughout the United States and Q3C operates in Colorado and the upper Midwest United States. The segment also includes three joint venture operations. The West segment consists of business headquartered primarily in the Western United States.

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The East segment includes the JCG Heavy Civil division, JCG Infrastructure and Maintenance division, BW Primoris and Cardinal Contractors, Inc. construction businesses, located primarily in the Southeastern United States and the Gulf Coast region of the United States.

The Energy segment includes the operations of the Primoris Energy Services (PES) pipeline and gas facility construction and maintenance operations and the PES Industrial division, whose operations are located primarily in the southeastern United States and in the Gulf Coast region. This segment also includes the Primoris Aevenia,Inc. (Aevenia), Surber and Ram-Fab operations and the OnQuest, Inc. and OnQuest Canada, ULC operations, which provide for the design and installation of liquid natural gas (LNG) facilities and high-performance furnaces and heaters for the oil refining, petrochemical and power generation industries.

Each of the three segments specializes in a range of services that include designing, building/installing, replacing, repairing/rehabilitating and providing management services for construction related projects. Our services include:

- Providing installation of underground pipeline, cable and conduits for entities in the petroleum, petrochemical and water industries;
- Providing maintenance services to utilities for installation and repair of gas distribution lines;
- Providing installation and maintenance of industrial facilities for entities in the petroleum, petrochemical and water industries;
- Providing installation of commercial and industrial cast-in-place structures;
- Providing construction of highways and bridges; and
- Providing industrial and environmental construction.

Trends

We continue to operate in an uncertain business environment with increasing regulatory requirements and a significant decrease in the price of commodities, including oil and gas pricing, during the last 18 months. While by many indicators the United States economy has recovered from the recessionary levels of the past few years, capital expenditure levels by many of our customers have remained at lower levels. Economic and regulatory issues have adversely affected our customers and have affected demand for our services. For some of our customers, the additional uncertainty associated with state and federal budgets adds to the difficulty in predicting the timing or magnitude that industry trends may have on our business, particularly in the near-term.

The direct impact of the reduction in oil and gas prices is found in three of our end markets: upstream, midstream and downstream. The lower commodity prices have reduced to a minimum the capital expenditure budgets of oil and gas producers which have reduced or eliminated most work in the oil and gas shale formations. This has reduced the demand for our upstream pipeline services such as opportunities in oil and gas gathering lines, compressor systems and related infrastructure especially in the shale formations. While the longer term opportunities for midstream customers remain, as the existing pipeline infrastructure appears to be insufficient to meet the potential natural gas demand, in the near term capital expenditure is expected to fall. However, the lower natural gas prices may provide midstream opportunities to build large diameter pipelines for gas utility customers. Finally for downstream refineries, low prices tend to lead to more maintenance and outage work as plants are operated at higher levels; however, the low oil prices may result in delays and deferral for some of the maintenance work.

The gas utility industry continues to outsource an increasing amount of its infrastructure construction, maintenance and inspection services. Large rate regulated utilities in many states continue to rely more on outside contractors, rather than their own employees, to provide many of the services needed to maintain and expand their utility plants. This trend provides opportunity for our West segment operations.

The U.S. Energy Information Administration has stated that the number of natural gas-fired power plants built will increase significantly over the next two decades. While renewable energy generation continues to increase and become a larger percentage of the overall power generation mix, natural gas facilities, especially the conversion of current facilities to more efficient sources of power, may provide a significant contribution to the revenue and profitability of the West segment and over the next few years also the Energy segment. Regulations limiting the discharge of cooling water into the ocean will require construction of alternative cooling systems and may lead to repowering at current sites over the next few years in California.

As many states institute renewable power standards mandating renewable energy generation as a part of the total power usage, large, utility-scale projects will provide construction opportunities over the next few years. In many locations, the development

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and construction of solar and wind facilities may result in a need for traditional plants to meet demand when the renewable resources are not available. In addition, alternative energy sources such as waste-to-power facilities provide long-term construction opportunities. The low long-term natural gas prices and the increased emission regulations of the Environmental Protection Agency may result in the construction of gas-fired power plants as an alternative to coal-fired plants. We believe that our gas-fired plant experience and industry knowledge will provide opportunities for us.

The continuing long-term low cost of natural gas is leading to industrial opportunities, as chemical plants that use natural gas as a feedstock initiate new projects or expand current facilities. Construction for many of these projects is expected in the Louisiana and Texas Gulf Coast region, which requires significant site preparation work as part of the project. Both our East and Energy segments provide services to many of the companies planning facility additions.

The low price and abundance of natural gas may lead to the development and construction of LNG export facilities, since natural gas prices in many international markets are greater than those in the United States. Future export LNG facilities could also provide opportunity for construction of additional pipelines. In addition, the development of small scale LNG facilities could provide opportunity for both our East and Energy segments.

At the end of 2015, opportunities for our highway construction services improved. The federal government enacted a four-year highway funding program, and the voters in the state of Texas adopted Proposition 7 to increase highway funding. In the United States, highway funding increased in 2015 compared to 2014. Our highway construction operation is focused on the states of Louisiana, Texas and Mississippi. Of these states, Texas continues to increase its highway construction budget, while the other two states have cut back funding in the past several years.

Over the past few years, several areas of the United States have suffered significant drought-like conditions. In these areas, state and municipal officials are considering using alternative sources for potable water, including using water pipelines to transport water from distant aquifers or building complex water treatment facilities to treat non-potable water. In some areas such as West Texas, state agencies are contemplating significant investment to improve the quantity of water. These investments may provide an opportunity for our East segment services. However, the planning cycle for major water and wastewater projects to address the drought tends to move very slowly, and opportunities may take several years to come to fruition.

Strategy

Our strategy continues to emphasize the following key elements:

- *Diversification Through Controlled Expansion.* We continue to emphasize the expansion of our scope of services beyond our current focus by increasing the scope of services offered to current customers and by adding new customers. We will evaluate acquisitions that offer growth opportunities and the ability to leverage our resources as a leading service provider to the oil and gas, power, refining and water industries. Our strategy also considers selective expansion to new geographic regions.

- *Emphasis on Retention of Existing Customers and Recurring Revenue.* In order to fully leverage our relationships with our existing customer base, we believe it is important to maintain strong customer relationships and to expand our base of recurring revenue sources and recurring customers.

- *Ownership of Equipment.* Many of our services are equipment intensive. The cost of construction equipment, and in some cases the availability of construction equipment, provides a significant barrier to entry into several of our businesses. We believe that our ownership of a large and varied construction fleet and our maintenance facilities enhances our access to reliable equipment at a favorable cost.

- *Stable Work Force.* Our business model emphasizes self-performance of a significant portion of our work. In each of our separate segments, we maintain a stable work force of skilled, experienced laborers, many of whom are cross-trained in projects such as pipeline and facility construction, refinery maintenance, and piping systems.

- *Selective Bidding.* We selectively bid on projects that we believe offer an opportunity to meet our profitability objectives or that offer the opportunity to enter promising new markets. In addition, we review our bidding opportunities to attempt to minimize concentration of work with any one customer, in any one industry, or in stressed labor markets. We believe that by carefully positioning ourselves in market segments that have meaningful barriers of entry, we can position ourselves so that we compete with other strong, experienced bidders.

- *Maintain a conservative capital structure and strong balance sheet.* We have maintained a capital structure that provides access to debt financing as needed while relying on tangible net worth to provide the primary support for our operations. We believe this structure provides both our customers and banks and bonding companies assurance of our financial

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capabilities. We maintain a revolving credit facility to provide letter of credit capability; however, we have not had any outstanding bank borrowing against this facility while we have been a public company.

Backlog

Backlog is discussed in Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations* of this Annual Report on Form 10-K.

Customers

We have longstanding customer relationships with major utility, refining, petrochemical, power and engineering companies. We have completed major underground and industrial projects for a number of large natural gas transmission and petrochemical companies in the western United States, as well as significant projects for our engineering customers. Through JCG, we expanded our customer base to include a significant presence in the Gulf Coast region of the United States; with Q3C, we expanded into the upper Midwest United States; and with Rockford, we are expanding throughout the United States. The various acquisitions have also changed the composition of our customer base with significant increases in state agency projects. We enter into a large number of contracts each year and the projects can vary in length from several weeks, to as long as 48 months for completion on larger projects. Although we have not been dependent upon any one customer in any year, a small number of customers tend to constitute a substantial portion of our total revenues.

Our customers have included many of the leading energy and utility companies in the United States, including, among others, Enterprise Liquids Pipeline, Xcel Energy, Pacific Gas & Electric, Southern California Gas, Sempra Energy, Williams, NRG, Chevron, Calpine, and Kinder Morgan.

The following customers accounted for more than 5% of our revenues in the periods indicated:

Description of customer s business	**2015**	**2014**	**2013**
Texas DOT	9.5%	8.8%	7.2%
Private gas and electric utility	9.0%	7.0%	5.4%
Chemical/energy producer	9.0%	*	*
Pipeline operator	8.6%	*	*
Gas utility	6.6%	*	7.4%
Public gas and electric utility	6.2%	6.9%	7.9%
Petrochemical producer	*	7.9%	*
Pipeline operator	*	5.8%	*
Gas utility	*	*	7.7%
Totals	48.9%	36.4%	35.6%

(*) Indicates a customer with less than 5% of revenues during such period.

As can be seen from the table, the customers accounting for revenues in excess of 5% each year varies from year to year due to the nature of our business. A large construction project for a customer may result in significant revenues in that one year, with significantly less revenues in subsequent years after project completion.

For the years ended December 31, 2015, 2014 and 2013, 59.4%, 53.6% and 50.0%, respectively, of total revenues were generated from the top ten customers of the Company in each year. In each of the years, a different group of customers comprised the top ten customers by revenue.

Management at each of our business units is responsible for developing and maintaining successful long-term relationships with customers. Our business unit management teams build existing customer relationships to secure additional projects and increase revenue from our current customer base. Business unit managers are also responsible for pursuing growth opportunities with prospective new customers.

We believe that our strategic relationships with customers will result in future opportunities. Some of our strategic relationships are in the form of strategic alliance or long-term maintenance agreements. However, we realize that future opportunities also require cost effective bids, as pricing is a key element for most construction projects.

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Ongoing Projects

The following is a summary of significant ongoing construction projects demonstrating our capabilities in different markets at December 31, 2015:

Segment	Project	Location	Approximate Contract Amount (Millions)	Estimated Completion Date	Remaining Backlog at December 31, 2015 (Millions)
West	500 MW Natural Gas Simple Cycle Power Plant	Carlsbad, CA	$ 212	11/2017	$ 209
West	125 Mile Natrual Gas Pipeline	Central Florida	$ 209	09/2017	$ 207
East	I-49 Parkway	Broussard, LA	$ 58	05/2017	$ 38
East	Bell IH-35 LP 363 To Troy	Troy, TX	$ 128		