Primoris Services Corp
Form 10-Q
August 09, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from to .

Commission file number 0001-34145

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)

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 No

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 No

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	Accelerated filer
Non-accelerated filer Do not check if a smaller reporting company.	Smaller reporting company

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

At August 5, 2016, 51,784,242 shares of the registrant's common stock, par value $0.0001 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRIMORIS SERVICES CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,115	$ 161,122
Customer retention deposits and restricted cash	3,033	2,598
Accounts receivable, net	318,074	320,588
Costs and estimated earnings in excess of billings	133,606	116,455
Inventory and uninstalled contract materials	61,833	67,796
Prepaid expenses and other current assets	21,583	18,265
Total current assets	635,244	686,824
Property and equipment, net	293,450	283,545
Deferred tax asset - long-term	1,075	1,075
Intangible assets, net	33,199	36,438
Goodwill	126,161	124,161
Other long-term assets	958	211
Total assets	$ 1,090,087	$ 1,132,254
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 113,385	$ 124,450
Billings in excess of costs and estimated earnings	122,291	139,875
Accrued expenses and other current liabilities	100,449	93,596
Dividends payable	2,847	2,842
Current portion of capital leases	510	974
Current portion of long-term debt	50,159	54,436
Total current liabilities	389,641	416,173
Long-term capital leases, net of current portion	18	22
Long-term debt, net of current portion	199,868	219,853
Other long-term liabilities	11,953	12,741
Total liabilities	601,480	648,789
Commitments and contingencies		
Stockholders' equity		

Common stock—$.0001 par value; 90,000,000 shares authorized; 51,772,497 and 51,676,140 issued and outstanding at June 30, 2016 and December 31, 2015	5	5
Additional paid-in capital	165,987	163,344
Retained earnings	321,944	319,899
Non-controlling interest	671	217
Total stockholders’ equity	488,607	483,465
Total liabilities and stockholders’ equity	$ 1,090,087	$ 1,132,254

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues	$ 456,811	$ 483,545	$ 887,257	$ 876,325
Cost of revenues	413,526	437,049	804,695	791,824
Gross profit	43,285	46,496	82,562	84,501
Selling, general and administrative expenses	32,498	38,547	65,156	72,307
Operating income	10,787	7,949	17,406	12,194
Other income (expense):				
Foreign exchange gain (loss)	21	(140)	380	296
Other expense	—	(45)	—	(89)
Interest income	52	6	91	18
Interest expense	(2,240)	(1,738)	(4,508)	(3,660)
Income before provision for income taxes	8,620	6,032	13,369	8,759
Provision for income taxes	(3,333)	(2,340)	(5,166)	(3,395)
Net income	$ 5,287	$ 3,692	$ 8,203	$ 5,364
Less net income attributable to noncontrolling interests	$ (231)	(54)	$ (454)	(54)
Net income attributable to Primoris	$ 5,056	$ 3,638	$ 7,749	$ 5,310
Earnings per share:				
Basic	$ 0.10	$ 0.07	$ 0.15	$ 0.10
Diluted	$ 0.10	$ 0.07	$ 0.15	$ 0.10
Weighted average common shares outstanding:				
Basic	51,772	51,666	51,749	51,619
Diluted	52,022	51,815	51,950	51,770

See Accompanying Notes to Condensed Consolidated Financial Statements

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PRIMORIS SERVICES CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 8,203	$ 5,364
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	30,850	28,512
Amortization of intangible assets	3,239	3,370
Gain on sale of property and equipment	(2,293)	(24)
Stock-based compensation expense	710	524
Changes in assets and liabilities:		
Customer retention deposits and restricted cash	(435)	(904)
Accounts receivable	2,514	21,603
Costs and estimated earnings in excess of billings	(17,151)	(40,581)
Other current assets	2,708	(6,726)
Accounts payable	(11,065)	356
Billings in excess of costs and estimated earnings	(17,584)	(21,318)
Contingent earnout liabilities	—	(4,910)
Accrued expenses and other current liabilities	7,337	3,820
Other long-term assets	(747)	(1,800)
Other long-term liabilities	(788)	(4,547)
Net cash provided by (used in) operating activities	5,498	(17,261)
Cash flows from investing activities:		
Purchase of property and equipment	(42,140)	(35,674)
Proceeds from sale of property and equipment	5,723	3,602
Sale of short-term investments	—	30,992
Cash paid for acquisitions	(4,108)	(22,302)
Net cash used in investing activities	(40,525)	(23,382)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	11,000
Repayment of capital leases	(468)	(714)
Repayment of long-term debt	(24,262)	(20,635)
Proceeds from issuance of common stock purchased by management under long-term incentive plan	1,439	1,621
Dividends paid	(5,689)	(4,124)

Net cash used in financing activities	(28,980)	(12,852)
Net change in cash and cash equivalents	(64,007)	(53,495)
Cash and cash equivalents at beginning of year	161,122	139,465
Cash and cash equivalents at end of the year	$ 97,115	$ 85,970

See Accompanying Notes to Condensed Consolidated Financial Statements

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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
Cash paid during the year for:		
Interest	$ 4,412	$ 3,588
Income taxes, net of refunds received	$ 1,299	$ 5,645

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

	Six Months Ended June 30,	
	2016	2015
	(Unaudited)	
Dividends declared and not yet paid	$ 2,847	$ 2,841

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 Share and Per Share Amounts)

(Unaudited)

Note 1—Nature of Business

Organization and operations — Primoris Services Corporation is a holding company of various construction and product engineering subsidiaries. The Company's underground and directional drilling operations install, replace and repair natural gas, petroleum, telecommunications and water pipeline systems, including large diameter 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; construct multi-level parking structures; and engage in the construction of highways, bridges and other environmental construction activities. The Company is incorporated in the State of Delaware, and its corporate headquarters is located at 2100 McKinney Avenue, Suite 1500, Dallas, Texas 75201.

Reportable Segments — As discussed in Note 19 — "Reportable Segments", the Company segregates its business into three reporting segments: the West Construction Services segment ("West segment"), the East Construction Services segment ("East segment") and the Energy segment ("Energy segment").

The following table lists the Company's primary operating subsidiaries and their reportable segment:

Subsidiary	Reportable Segment
ARB, Inc. ("ARB")	West
ARB Structures, Inc.	West
Q3 Contracting, Inc. ("Q3C")	West
Rockford Corporation ("Rockford")	West
Vadnais Trenchless Services, Inc. ("Vadnais")	West
Cardinal Contractors, Inc.	East
BW Primoris, LLC ("BWP")	East
James Construction Group, LLC ("JCG"):	East
JCG Heavy Civil Division	East
JCG Infrastructure and Maintenance Division	East
Primoris Energy Services Corporation ("PES")	Energy
PES Pipeline Services	Energy

PES Industrial Division	Energy
OnQuest, Inc.	Energy
OnQuest Canada, ULC	Energy
Primoris Aevenia, Inc. (“Aevenia”); acquired February 28, 2015	Energy

The Company owned 50% of the Blythe Power Constructors joint venture (“Blythe”) created for the installation of a parabolic trough solar field and steam generation system in California, and its operations have been included as part of the West segment. The project has been completed, the project warranty expired in May 2015 and dissolution of the joint venture was completed in the third quarter 2015.

The Company owns a 50% interest in two separate joint ventures, both formed in 2015 to engineer and construct gas-fired power generation facilities: Carlsbad Power Constructors joint venture (“Carlsbad”) and ARB Inc. & B&M Engineering Co. joint venture (“Wilmington”). Both projects are located in the Southern California area and both are expected to be completed in 2018. The joint venture operations are included as part of the West segment. As a result of determining that the Company is the primary beneficiary of the two VIE’s, the results of the Carlsbad and Wilmington joint ventures are consolidated in the Company’s financial statements. Financial information for the joint ventures is presented in Note 11— “Noncontrolling Interests”.

On February 28, 2015, the Company acquired the net assets of Aevenia, Inc. for $22.3 million in cash, and established a new entity, Primoris Aevenia, Inc. (“Aevenia”), which operates as part of the Company’s Energy segment. Headquartered in Moorhead, Minnesota, Aevenia is an energy and electrical construction company. Aevenia specializes in overhead and underground line work, substations, telecom/fiber, and certain other client-specific on-demand call out services. The majority of their work is delivered under unit-price Master Services Agreements (“MSAs”). Aevenia has

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operations in Minnesota, North Dakota, South Dakota and Iowa. The Company believes there are opportunities for Aevenia to grow sales by performing in-house work for other Primoris subsidiaries and to expand the Company's offerings to new geographies in the Midwest United States. On January 29, 2016, the Company acquired the net assets of Mueller Concrete Construction Company ("Mueller") for $4.1 million. Mueller will operate as a division of Aevenia. See Note 7 — "Business Combinations".

Unless specifically noted otherwise, as used throughout these consolidated financial statements, "Primoris", "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 and six month periods ended June 30, 2016 and 2015 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 Annual Report on Form 10-K, filed on February 29, 2016, which contains the Company's audited consolidated financial statements for the year ended December 31, 2015, have been omitted.

This Second Quarter 2016 Report should be read in concert with the Company's most recent Annual Report on Form 10-K. The interim financial information is unaudited. In the opinion of management, the interim information includes all adjustments (consisting of normal recurring adjustments) necessary for the fair presentation of the interim financial information.

Revenue recognition

Fixed-price contracts — Historically, a substantial portion of the Company's revenue has been generated under fixed-price contracts. For fixed-price contracts, the Company recognizes revenues primarily using the percentage-of-completion method, which may result in uneven and irregular results. In the percentage-of-completion method, estimated contract values, estimated cost at completion and total costs incurred to date are used to calculate revenues earned. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular contract. 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. To the extent that original cost estimates are modified, estimated costs to complete increase, delivery schedules are delayed, or progress under a contract is otherwise impeded, cash flow, revenue recognition and

profitability from a particular contract may be adversely affected.

The Company considers unapproved change orders to be contract variations for which it has customer approval for a change in scope but for which it does not have an agreed upon price change. Costs associated with unapproved change orders are included in the estimated cost to complete and are treated as project costs as incurred. The Company recognizes revenue equal to costs incurred on unapproved change orders based on an estimated probability of realization from change order approval. Unapproved change orders involve the use of estimates, and it is reasonably possible that revisions to the estimated costs and recoverable amounts may be required in future reporting periods to reflect changes in estimates or final agreements with customers.

The Company considers claims to be amounts it seeks, or will seek, to collect from customers or others for customer-caused changes in contract specifications or design, or other customer-related causes of unanticipated additional contract costs on which there is no agreement with customers on both scope and price changes. Claims are included in the calculation of revenues when realization is probable and amounts can be reliably determined. Revenue in excess of contract costs from claims is recognized when an agreement is reached with customers as to the value of the claims, which in some instances may not occur until after completion of work under the contract. Costs associated with claims are included in the estimated costs to complete the contracts and are treated as project costs when incurred.

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Other contract forms — The Company also uses unit-price, time and material, and cost reimbursable plus fee contracts. For these jobs, revenue is recognized primarily based on contractual terms. For example, time and material contract revenues are generally recognized on an input basis, based on labor hours incurred and on purchases made. Similarly, unit price contracts generally recognize revenue on an output based measurement such as the completion of specific units at a specified unit price.

At any time, if an estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full at that time. The loss amount is recognized as an "accrued loss provision" and is included in the accrued expenses and other current liabilities amount on the balance sheet. For fixed price contracts, as the percentage-of-completion method is used to calculate revenues, the accrued loss provision is changed so that the gross profit for the contract remains zero in future periods. If we anticipate that there will be a loss for unit price or cost reimbursable contracts, the projected loss is recognized in full at that time.

Changes in job performance, job conditions and estimated profitability, including those arising from final contract settlements, may result in revisions to costs and income. These revisions are recognized in the period in which the revisions are identified.

In all forms of contracts, the Company estimates its collectability of contract amounts at the same time that it estimates project costs. If the Company anticipates that there may be issues associated with the collectability of the full amount calculated as revenues, the Company may reduce the amount recognized as revenue to reflect the uncertainty associated with realization of the eventual cash collection. For example, when a cost reimbursable project exceeds the client's expected budget amount, the client frequently requests an adjustment to the final amount. Similarly, some utility clients reserve the right to audit costs for significant periods after performance of the work. In these situations, the Company may choose to defer recognition of revenue up to the time that the client pays for the services.

The caption "Costs and estimated earnings in excess of billings" in the Consolidated Balance Sheet represents unbilled receivables which arise when revenues have been recorded but the amount will not be billed until a later date. Balances represent: (a) unbilled amounts arising from the use of the percentage-of-completion method of accounting which may not be billed under the terms of the contract until a later date or project milestone, (b) amounts arising from routine lags in billing, or (c) the revenue associated with unapproved change orders or claims when realization is probable and amounts can be reliably determined. For those contracts in which billings exceed contract revenues recognized to date, the excess amounts are included in the caption "Billings in excess of costs and estimated earnings".

In accordance with applicable terms of certain construction contracts, retainage amounts may be withheld by customers until completion and acceptance of the project. Some payments of the retainage may not be received for a significant period after completion of our portion of a project. In some jurisdictions, retainage amounts are deposited into an escrow account.

Significant revision in contract estimate — Revenue recognition is based on the percentage-of-completion method for fixed-price contracts. Under this method, the costs incurred to date as a percentage of total estimated costs are used to calculate revenue. Total estimated costs, and thus contract revenues and margin, are impacted by many factors, which can cause significant changes in estimates during the life cycle of a project.

For projects that were in process at the end of the prior year or prior quarter there can be a difference in revenues and profits that would have been recognized in the prior year or prior quarter had current estimates of costs to complete been used at the end of the prior year or prior quarter.

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; however, the group that comprises the top ten customers varies from year to year.

During the three and six months ended June 30, 2016, revenues generated by the top ten customers were $263 million and $533 million, respectively, which represented 57.7% and 60.1%, respectively, of total revenues during

the periods. During these respective periods, a Louisiana petrochemical project represented 11.3% and 12.4% of total revenues and TXDOT represented 10.2% and 11.8% of total revenues.

During the three and six months ended June 30, 2015, revenues generated by the top ten customers were $255 million and $483 million, which represented 52.7% and 55.1%, respectively, of total revenues during the periods. During that period, a large midstream pipeline company represented 11.5% and 12.5% of total revenues and Texas Department of Transportaion ("TX DOT") represented 9.2% and 10.0% of total revenues.

At June 30, 2016, approximately 15.6% of the Company's accounts receivable were due from one customer, and that customer provided 12.4% of the Company's revenues for the six months ended June 30, 2016. In addition, of total accounts receivable, approximately 16.0% are currently in dispute resolution. See Note 18 – "Commitments and Contingencies".

At June 30, 2015, approximately 8.2% of the Company's accounts receivable were due from one customer, and that customer provided 7.0% of the Company's revenues for the six months ended June 30, 2015. In addition, approximately 15.8% of total accounts receivable at June 30, 2015 were and continue to be in dispute resolution. See Note 18 — "Commitments and Contingencies".

Multiemployer plans — Various subsidiaries in the West segment are signatories to collective bargaining agreements. These agreements require that the Company participate in and contribute to a number of multiemployer benefit plans for its union employees at rates determined by the agreements. The trustees for each multiemployer plan determine the eligibility and allocations of contributions and benefit amounts, determine the types of benefits and administer the plan. Federal law requires that if the Company were to withdraw from an agreement, it would incur a withdrawal obligation. The potential withdrawal obligation may be significant. In accordance with Generally Accepted Accounting Principles ("GAAP"), any withdrawal liability would be recorded when it is probable that a liability exists and can be reasonably estimated. In November 2011, the Company withdrew from the Central States Southeast and Southwest Areas Pension Fund multiemployer pension plan, as discussed in Note 18 — "Commitments and Contingencies". The Company has no plans to withdraw from any other agreements.

Inventory and uninstalled contract materials — Inventory consists of expendable construction materials and small tools that will be used in construction projects and is valued at the lower of cost, using first-in, first-out method, or market. Uninstalled contract materials are certain job specific materials not yet installed, primarily for highway construction projects, which are valued using the specific identification method relating the cost incurred to a specific project. In most cases, the Company has been able to invoice a state agency for the materials, but title has not yet passed to the state agency.

Deferred tax classification on the statement of financial position — Deferred tax assets and liabilities are classified as non-current in a statement of financial position, reflecting a recent change required by ASU 2015-17 “Balance Sheet Classification of Deferred Taxes” adopted by the Company at December 31, 2015. This change eliminates the need to analyze temporary differences to determine if deferred taxes should be reported as current or noncurrent. Past practice did not typically align with the time period in which deferred taxes were expected to be recovered or settled. For this reason, effective December 31, 2015 the Company classified all deferred tax assets and liabilities as a net non-current deferred tax asset.

Note 3—Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606)”. The new standard is effective for reporting periods beginning after December 15, 2017 and early adoption is not permitted. The comprehensive new standard will supersede existing revenue recognition guidance and require revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. Adoption will require new qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, information about contract balances and performance obligations, and assets recognized from costs incurred to obtain or fulfill a contract. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The Company is currently evaluating the impact of adopting the ASU and the implementation approach to use.

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In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements — Going Concern (Subtopic 205-40)" to address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when and how an entity must disclose certain relevant conditions and events. This update requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued). If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions or events. The guidance is effective for annual and interim periods ending after December 15, 2016. The Company will adopt this guidance effective January 1, 2017.

In February 2015, the FASB issued ASU 2015-02 "Consolidation (Topic 810): Amendment to the Consolidation Analysis" which amends existing consolidation guidance, including amending the guidance related to determining whether an entity is a variable interest entity. The update is effective for interim and annual periods beginning after December 15, 2015. As of January 1, 2016, the Company adopted this ASU which did not have a material impact on the Company's consolidated financial statements.

In February 2016, The FASB issued ASU 2016-02 "Leases (Topic 842)". The ASU will require recognition of operating leases with lease terms of more than twelve months on the balance sheet as both assets for the rights and liabilities for the obligations created by the leases. The ASU will require disclosures that provide qualitative and quantitative information for the lease assets and liabilities recorded in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2018. The Company will establish procedures to adopt the ASU.

In March 2016, the FASB issued ASU 2016-09 "Compensation — Stock Compensation (Topic 718) — Improvements to Employee Share-Based Payment Accounting". The ASU modifies the accounting for excess tax benefits and tax deficiencies associated with share-based payments by requiring that excess tax benefits or deficiencies be included in the income statement rather than in equity. Additionally, the tax benefits for dividends on share-based payment awards will also be reflected in the income statement. As a result of these modifications, the ASU requires that the tax-related cash flows resulting from share-based payments will be shown on the cash flow statement as operating activities rather than as financing activities. This guidance is effective for annual periods beginning after December 15, 2016, with early adoption permitted. Adoption of this ASU is not expected to have a material effect on the Company's consolidated financial statements.

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 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use data points that are observable 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.

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The following table presents, for each of the fair value hierarchy levels identified under ASC Topic 820, the Company's financial assets and liabilities that are required to be measured at fair value at June 30, 2016 and December 31, 2015:

		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 as of June 30, 2016:				
Cash and cash equivalents	$ 97,115	$ 97,115	—	—
Liabilities as of June 30, 2016:				
None				
Assets as of December 31, 2015:				
Cash and cash equivalents	$ 161,122	$ 161,122	—	—
Liabilities as of December 31, 2015:				
None				

Other financial instruments of the Company not listed in the table consist of accounts receivable, accounts payable and certain accrued liabilities. These financial instruments generally approximate fair value based on their short-term nature. 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.

There were no Level 3 amounts as of June 30, 2016 and December 31, 2015; however, the following table provides changes to the Company's contingent consideration liability Level 3 fair value measurements during the six months ended June 30, 2016 and 2015:

	Significant Unobservable Inputs (Level 3)	
	2016	2015
Contingent Consideration Liability		
Beginning balance, January 1, 2016 and 2015	$ —	$ 6,922
Additions to contingent consideration liability:		
Change in fair value of contingent consideration liability during year	—	90
Reductions in the contingent consideration liability:		
Payment to Q3C sellers for meeting performance targets	—	(5,000)
Reduction due to non-attainment of performance target – Ram Fab	—	(200)
Ending balance, June 30, 2016 and 2015	$ —	$ 1,812

During each quarter in 2015, the Company assessed the estimated fair value of the contractual obligation to pay the contingent consideration and any changes in estimated fair value were recorded as other non-operating expense or income in the Company’s statement of income for that period. Fluctuations in the fair value of contingent consideration were impacted by two unobservable inputs, management’s estimate of the probability (which has ranged from 33% to 100%) of the acquired company meeting the contractual operating performance target and an estimated discount rate (a rate that approximates the Company’s cost of capital). Significant changes in either of those inputs in isolation would result in a different fair value measurement. Generally, a change in the assumption of the probability of meeting the performance target is accompanied by a directionally similar change in the fair value of contingent consideration liability, whereas a change in assumption used of the estimated discount rate is accompanied by a directionally opposite change in the fair value of contingent consideration liability.

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Note 5—Accounts Receivable

The following is a summary of the Company's accounts receivable:

	June 30, 2016	December 31, 2015
Contracts receivable, net of allowance for doubtful accounts of $480 at June 30, 2016 and December 31, 2015, respectively	$ 280,033	$ 288,300
Retention receivable	36,901	31,396
	316,934	319,696
Other accounts receivable	1,140	892
	$ 318,074	$ 320,588

Note 6—Costs and Estimated Earnings on Uncompleted Contracts

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

	June 30, 2016	December 31, 2015
Costs incurred on uncompleted contracts	$ 4,345,624	$ 5,413,224
Gross profit recognized	362,515	625,280
	4,708,139	6,038,504
Less: billings to date	(4,696,824)	(6,061,924)
	$ 11,315	$ (23,420)

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

	June 30, 2016	December 31, 2015
Costs and estimated earnings in excess of billings	$ 133,606	$ 116,455

Billings in excess of cost and estimated earnings	(122,291)	(139,875)
	$ 11,315	$ (23,420)

Note 7 — Business Combinations

On February 28, 2015, the Company acquired the net assets of Aevenia, Inc. for $22.3 million in cash, and established a new entity, Primoris Aevenia, Inc. (“Aevenia”). The acquisition provides electrical construction expertise for the Company and provides a greater presence and convenient access to the central plains area of the United States. The purchases were accounted for using the acquisition method of accounting. The assets were purchased for their estimated fair value and included current assets, current liabilities, plant and equipment, intangible assets and goodwill.

On January 29, 2016, the Company’s subsidiary, Aevenia, acquired certain assets and liabilities of Mueller Concrete Construction Company ("Mueller") for $4.1 million. The purchase was accounted for using the acquisition method of accounting. During the second quarter of 2016, the Company finalized its estimate of fair value of the acquired assets of Mueller, which included $2.0 million of fixed assets, $2.0 million of goodwill and $0.1 million of inventory. Mueller will operate as a division of Aevenia. Goodwill largely consists of expected benefits from providing foundation expertise for Aevenia’s construction efforts in underground line work, substations and telecom/fiber. Goodwill also includes the value of the assembled workforce that the Mueller acquisition provides to the Aevenia business. Based on the current tax treatment, goodwill and other intangible assets will be deductible for income tax purposes over a fifteen-year period.

On June 24, 2016, the Company’s subsidiary, Vadnais, purchased property, plant and equipment from Pipe Jacking Unlimited, Inc., consisting of specialty directional drilling and tunneling equipment for $13.4 million in cash. The Company determined this purchase did not meet the definition of a business as defined under ASC 805. The estimated fair value of the equipment was equal to the purchase price. The Company believes the purchase of the equipment will aid in the Company’s pipeline construction projects and enhance the work provided to our utility clients.

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Supplemental Unaudited Pro Forma Information for the three and six months ended June 30, 2016 and 2015

The following pro forma information for the three and six months ended June 30, 2016 and 2015 presents the results of operations of the Company as if the 2016 Mueller acquisition and the 2015 Aevenia acquisition had occurred at the beginning of 2015. 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 allocations;

- the pro forma tax effect of both the income before income taxes and the pro forma adjustments, calculated using a tax rate of 40.0% for the three and six months ended June 30, 2016 and the same period in 2015.

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 various acquisitions been completed on January 1, 2015. For example, the pro forma results do not reflect any operating efficiencies and associated cost savings that the Company might have achieved with respect to the Mueller or Aevenia acquisition.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Revenues	$ 456,811	$ 484,620	$ 887,615	$ 881,473
Income before provision for income taxes	$ 8,620	$ 6,092	$ 13,440	$ 7,483
Net income attributable to Primoris	$ 5,056	$ 3,674	$ 7,793	$ 4,532
Weighted average common shares outstanding:				
Basic	51,772	51,666	51,749	51,619
Diluted	52,022	51,815	51,950	51,770
Earnings per share:				
Basic	$ 0.10	$ 0.07	$ 0.15	$ 0.09
Diluted	$ 0.10	$ 0.07	$ 0.15	$ 0.09

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Note 8—Goodwill and Intangible Assets

Goodwill was recorded as follows:

Reporting Unit	Segment	June 30, 2016	December 31, 2015
Rockford	West	$ 32,079	$ 32,079
Q3C	West	13,160	13,160
JCG	East	42,866	42,866
PES	Energy	28,463	28,463
OnQuest Canada, ULC	Energy	2,441	2,441
Aevenia	Energy	7,152	5,152
Total Goodwill		$ 126,161	$ 124,161

At June 30, 2016 and December 31, 2015, intangible assets totaled $33,199 and $36,438, respectively, net of amortization. The table below summarizes the intangible asset categories, amounts and the average amortization periods, which are generally on a straight-line basis, as follows:

	Amortization Period	June 30, 2016	December 31, 2015
Tradename	3 to 10 years	$ 13,455	$ 15,019
Non-compete agreements	2 to 5 years	1,178	1,424
Customer relationships	3 to 15 years	18,566	19,995
		$ 33,199	$ 36,438

Amortization expense of intangible assets was $1,615 and $1,719 for the three months ended June 30, 2016 and 2015, respectively, and amortization expense for the six months ended June 30, 2016 and 2015 was $3,239 and $3,370, respectively. Estimated future amortization expense for intangible assets is as follows: