

**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 September 30, 2021

OR

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

For the transition period from to .

Commission file number 001-34145

Primoris Services Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

2300 N. Field Street, Suite 1900
Dallas, Texas
(Address of Principal Executive Offices)

20-4743916
(I.R.S. Employer
Identification No.)

75201
(Zip Code)

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value	PRIM	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At November 5, 2021, 53,820,801 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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)

	<u>September 30,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 199,025	\$ 326,744
Accounts receivable, net	554,501	432,455
Contract assets	411,262	325,849
Prepaid expenses and other current assets	52,444	30,218
Total current assets	<u>1,217,232</u>	<u>1,115,266</u>
Property and equipment, net	434,307	356,194
Operating lease assets	173,198	207,320
Deferred tax assets	1,919	1,909
Intangible assets, net	172,165	61,012
Goodwill	584,681	215,103
Other long-term assets	14,491	12,776
Total assets	<u>\$ 2,597,993</u>	<u>\$ 1,969,580</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 315,276	\$ 245,906
Contract liabilities	202,116	267,227
Accrued liabilities	234,004	200,673
Dividends payable	3,228	2,887
Current portion of long-term debt	68,028	47,722
Total current liabilities	<u>822,652</u>	<u>764,415</u>
Long-term debt, net of current portion	610,556	268,835
Noncurrent operating lease liabilities, net of current portion	110,819	137,913
Deferred tax liabilities	8,870	13,548
Other long-term liabilities	67,708	70,077
Total liabilities	<u>1,620,605</u>	<u>1,254,788</u>
Commitments and contingencies (See Note 15)		
Stockholders' equity		
Common stock—\$.0001 par value; 90,000,000 shares authorized; 53,800,811 and 48,110,442 issued and outstanding at September 30, 2021 and December 31, 2020, respectively	6	5
Additional paid-in capital	275,155	89,098
Retained earnings	701,210	624,694
Accumulated other comprehensive income	974	958
Noncontrolling interest	43	37
Total stockholders' equity	<u>977,388</u>	<u>714,792</u>
Total liabilities and stockholders' equity	<u>\$ 2,597,993</u>	<u>\$ 1,969,580</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

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,	
	2021	2020	2021	2020
Revenue	\$ 913,245	\$ 942,700	\$ 2,613,184	\$ 2,594,159
Cost of revenue	785,809	819,019	2,292,541	2,321,701
Gross profit	127,436	123,681	320,643	272,458
Selling, general and administrative expenses	61,706	56,980	172,885	152,753
Transaction and related costs	447	117	14,823	154
Operating income	65,283	66,584	132,935	119,551
Other income (expense):				
Foreign exchange loss, net	—	(77)	(443)	(141)
Other income, net	181	98	555	816
Interest expense, net	(4,698)	(4,715)	(14,154)	(17,172)
Income before provision for income taxes	60,766	61,890	118,893	103,054
Provision for income taxes	(16,710)	(17,947)	(32,694)	(29,883)
Net income	44,056	43,943	86,199	73,171
Net income attributable to noncontrolling interests	(3)	(2)	(6)	(8)
Net income attributable to Primoris	<u>\$ 44,053</u>	<u>\$ 43,941</u>	<u>\$ 86,193</u>	<u>\$ 73,163</u>
Dividends per common share	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.18</u>	<u>\$ 0.18</u>
Earnings per share:				
Basic	<u>\$ 0.82</u>	<u>\$ 0.91</u>	<u>\$ 1.65</u>	<u>\$ 1.51</u>
Diluted	<u>\$ 0.81</u>	<u>\$ 0.90</u>	<u>\$ 1.63</u>	<u>\$ 1.50</u>
Weighted average common shares outstanding:				
Basic	53,769	48,253	52,354	48,370
Diluted	54,367	48,574	52,887	48,712

See Accompanying Notes to Condensed Consolidated Financial Statements

PRIMORIS SERVICES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)
(Unaudited)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income	\$ 44,056	\$ 43,943	\$ 86,199	\$ 73,171
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1,077)	458	16	(727)
Comprehensive income	42,979	44,401	86,215	72,444
Net income attributable to noncontrolling interests	(3)	(2)	(6)	(8)
Comprehensive income attributable to Primoris	<u>\$ 42,976</u>	<u>\$ 44,399</u>	<u>\$ 86,209</u>	<u>\$ 72,436</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

PRIMORIS SERVICES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, June 30, 2021	53,731,206	\$ 6	\$ 274,008	\$ 660,385	\$ 2,051	\$ 40	\$ 936,490
Net income	—	—	—	44,053	—	3	44,056
Foreign currency translation adjustments, net of tax	—	—	—	—	(1,077)	—	(1,077)
Issuance of shares, net of issuance costs	7,328	—	212	—	—	—	212
Conversion of Restricted Stock Units, net of shares withheld for taxes	62,277	—	(726)	—	—	—	(726)
Stock-based compensation	—	—	1,661	—	—	—	1,661
Dividend equivalent Units accrued - Restricted Stock Units	—	—	—	—	—	—	—
Dividends declared (\$0.06 per share)	—	—	—	(3,228)	—	—	(3,228)
Balance, September 30, 2021	<u>53,800,811</u>	<u>\$ 6</u>	<u>\$ 275,155</u>	<u>\$ 701,210</u>	<u>\$ 974</u>	<u>\$ 43</u>	<u>\$ 977,388</u>

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2020	48,110,442	\$ 5	\$ 89,098	\$ 624,694	\$ 958	\$ 37	\$ 714,792
Net income	—	—	—	86,193	—	6	86,199
Foreign currency translation adjustments, net of tax	—	—	—	—	16	—	16
Issuance of shares, net of issuance costs	5,588,328	1	178,234	—	—	—	178,235
Conversion of Restricted Stock Units, net of shares withheld for taxes	102,041	—	(1,325)	—	—	—	(1,325)
Stock-based compensation	—	—	9,146	—	—	—	9,146
Dividend equivalent Units accrued - Restricted Stock Units	—	—	2	(2)	—	—	—
Dividends declared (\$0.18 per share)	—	—	—	(9,675)	—	—	(9,675)
Balance, September 30, 2021	<u>53,800,811</u>	<u>\$ 6</u>	<u>\$ 275,155</u>	<u>\$ 701,210</u>	<u>\$ 974</u>	<u>\$ 43</u>	<u>\$ 977,388</u>

PRIMORIS SERVICES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)
(In Thousands, Except Share and Per Share Amounts)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, June 30, 2020	48,220,811	\$ 5	\$ 91,257	\$ 554,717	\$ (1,109)	\$ 34	\$ 644,904
Net income	—	—	—	43,941	—	2	43,943
Foreign currency translation adjustments, net of tax	—	—	—	—	458	—	458
Issuance of shares, net of issuance costs	9,086	—	157	—	—	—	157
Conversion of Restricted Stock Units, net of shares withheld for taxes	41,119	—	(471)	—	—	—	(471)
Stock-based compensation	—	—	528	—	—	—	528
Dividend equivalent Units accrued - Restricted Stock Units	—	—	2	(2)	—	—	—
Repurchase of stock	(174,698)	—	(3,110)	—	—	—	(3,110)
Dividends declared (\$0.06 per share)	—	—	—	(2,887)	—	—	(2,887)
Balance, September 30, 2020	<u>48,096,318</u>	<u>\$ 5</u>	<u>\$ 88,363</u>	<u>\$ 595,769</u>	<u>\$ (651)</u>	<u>\$ 36</u>	<u>\$ 683,522</u>
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2019	48,665,138	\$ 5	\$ 97,130	\$ 531,291	\$ 76	\$ 1,028	\$ 629,530
Net income	—	—	—	73,163	—	8	73,171
Foreign currency translation adjustments, net of tax	—	—	—	—	(727)	—	(727)
Issuance of shares, net of issuance costs	70,805	—	1,494	—	—	—	1,494
Conversion of Restricted Stock Units, net of shares withheld for taxes	54,635	—	(548)	—	—	—	(548)
Stock-based compensation	—	—	1,730	—	—	—	1,730
Dividend equivalent Units accrued - Restricted Stock Units	—	—	10	(10)	—	—	—
Repurchase of stock	(694,260)	—	(11,453)	—	—	—	(11,453)
Distribution of noncontrolling entities	—	—	—	—	—	(1,000)	(1,000)
Dividends declared (\$0.18 per share)	—	—	—	(8,675)	—	—	(8,675)
Balance, September 30, 2020	<u>48,096,318</u>	<u>\$ 5</u>	<u>\$ 88,363</u>	<u>\$ 595,769</u>	<u>\$ (651)</u>	<u>\$ 36</u>	<u>\$ 683,522</u>

PRIMORIS SERVICES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 86,199	\$ 73,171
Adjustments to reconcile net income to net cash provided by operating activities (net of effect of acquisitions):		
Depreciation and amortization	78,865	62,558
Stock-based compensation expense	9,146	1,730
Gain on sale of property and equipment	(13,075)	(6,198)
Unrealized (gain) loss on interest rate swap	(3,183)	3,856
Other non-cash items	823	295
Changes in assets and liabilities:		
Accounts receivable	(69,659)	(91,741)
Contract assets	(54,262)	(16,783)
Other current assets	(21,795)	9,707
Other long-term assets	477	1,073
Accounts payable	57,698	16,533
Contract liabilities	(67,821)	63,682
Operating lease assets and liabilities, net	(1,388)	3,250
Accrued liabilities	21,327	36,394
Other long-term liabilities	(8,457)	33,952
Net cash provided by operating activities	<u>14,895</u>	<u>191,479</u>
Cash flows from investing activities:		
Purchase of property and equipment	(102,133)	(54,404)
Proceeds from sale of assets	43,488	17,710
Cash paid for acquisitions, net of cash acquired	(606,974)	—
Net cash used in investing activities	<u>(665,619)</u>	<u>(36,694)</u>
Cash flows from financing activities:		
Borrowings under revolving line of credit	100,000	—
Payments on revolving line of credit	(100,000)	—
Proceeds from issuance of long-term debt	461,719	33,873
Repayment of long-term debt	(96,473)	(56,321)
Proceeds from issuance of common stock	178,707	578
Cash distribution to noncontrolling interest holders	—	(1,000)
Debt issuance costs	(4,876)	—
Repurchase of common stock	—	(10,959)
Dividends paid	(9,334)	(8,707)
Other	(7,038)	(3,436)
Net cash provided by (used in) financing activities	<u>522,705</u>	<u>(45,972)</u>
Effect of exchange rate changes on cash and cash equivalents	300	(553)
Net change in cash and cash equivalents	(127,719)	108,260
Cash and cash equivalents at beginning of the period	326,744	120,286
Cash and cash equivalents at end of the period	<u>\$ 199,025</u>	<u>\$ 228,546</u>

See Accompanying Notes to Condensed Consolidated Financial Statements

PRIMORIS SERVICES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In Thousands)
(Unaudited)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	Nine Months Ended September 30,	
	2021	2020
Cash paid for interest	\$ 16,555	\$ 13,433
Cash paid for income taxes, net of refunds received	31,194	5,288
Leased assets obtained in exchange for new operating leases	15,500	51,664

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES

	Nine Months Ended September 30,	
	2021	2020
Dividends declared and not yet paid	\$ 3,228	\$ 2,887

See Accompanying Notes to Condensed Consolidated Financial Statements

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 one of the leading providers of specialty contracting services operating mainly in the United States and Canada. We provide a wide range of specialty construction services, fabrication, maintenance, replacement, and engineering services to a diversified base of customers through our three segments.

We have customer relationships with major utility, telecommunications, refining, petrochemical, power, midstream, and engineering companies, and state departments of transportation. We provide our services to a diversified base of customers, under a range of contracting options. A substantial portion of our services are provided under Master Service Agreements (“MSA”), which are generally multi-year agreements. The remainder of our services are generated from contracts for specific construction or installation projects.

We are incorporated in the State of Delaware, and our corporate headquarters are located at 2300 N. Field Street, Suite 1900, Dallas, Texas 75201. 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.

Reportable Segments — Through the end of 2020, we segregated our business into five reportable segments: the Power, Industrial and Engineering segment, the Pipeline and Underground segment, the Utilities and Distribution segment, the Transmission and Distribution segment, and the Civil segment. In the first quarter 2021, we changed our reportable segments in connection with a realignment of our internal organization and management structure. The segment changes reflect the focus of our chief operating decision maker (“CODM”) on the range of services we provide to our end user markets. Our CODM regularly reviews our operating and financial performance based on these segments.

The current reportable segments include the Utilities segment, the Energy/Renewables segment and the Pipeline Services (“Pipeline”) segment. See Note 16 – “*Reportable Segments*” for a brief description of the reportable segments and their operations.

The classification of revenue and gross profit for segment reporting purposes can at times require judgment on the part of management. Our segments may perform services across industries or perform joint services for customers in multiple industries. To determine reportable segment gross profit, certain allocations, including allocations of shared and indirect costs, such as facility costs, equipment costs and indirect operating expenses, were made.

Note 2—Basis of Presentation

Interim condensed consolidated financial statements — The interim condensed consolidated financial statements for the three and nine months ended September 30, 2021 and 2020 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 our Annual Report on Form 10-K, filed on February 23, 2021, which contains our audited consolidated financial statements for the year ended December 31, 2020, have been omitted.

This Form 10-Q should be read in conjunction with our 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.

Reclassification — Certain previously reported amounts have been reclassified to conform to the current period presentation.

Customer concentration — We operate in multiple industry segments encompassing the construction of commercial, industrial and public works infrastructure assets primarily throughout the United States. Typically, the top ten

customers in any one calendar year generate revenue that is approximately 50% of total revenue; however, the companies that comprise the top ten vary from year to year.

For the three and nine months ended September 30, 2021, approximately 45.6% and 43.3%, respectively, of total revenue was generated from our top ten customers and no one customer accounted for more than ten percent of our total revenue.

For the three and nine months ended September 30, 2020, approximately 49.2% and 49.3%, respectively, of total revenue was generated from our top ten customers. For the three months ended September 30, 2020 no one customer accounted for more than 10% of total revenue and for the nine months ended September 30, 2020, one pipeline customer represented approximately 10.5% of total revenue.

Note 3—Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In December 2019, the FASB issued ASU No. 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes”, which removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. This ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Depending on the amendment, adoption may be applied on the retrospective, modified retrospective or prospective basis. We adopted the new standard on January 1, 2021, on a prospective basis and it did not have a material impact on our consolidated financial position, results of operations or cash flows.

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.

The following table presents, for each of the fair value hierarchy levels identified under ASC Topic 820, our financial assets and liabilities that are required to be measured at fair value at September 30, 2021 and December 31, 2020 (in thousands):

	Fair Value Measurements at Reporting Date		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets as of September 30, 2021:			
Cash and cash equivalents	\$ 199,025	\$ —	\$ —
Liabilities as of September 30, 2021:			
Interest rate swap	\$ —	\$ 6,022	\$ —
Assets as of December 31, 2020:			
Cash and cash equivalents	\$ 326,744	\$ —	\$ —
Liabilities as of December 31, 2020:			
Interest rate swap	\$ —	\$ 9,205	\$ —

Other financial instruments 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 our long-term debt approximates fair value based on comparison with current prevailing market rates for loans of similar risks and maturities.

The interest rate swap is measured at fair value using the income approach, which discounts the future net cash settlements expected under the derivative contracts to a present value. These valuations primarily utilize indirectly observable inputs, including contractual terms, interest rates and yield curves observable at commonly quoted intervals. See Note 10 – “*Derivative Instruments*” for additional information.

Note 5—Acquisitions

Acquisition of Future Infrastructure Holdings, LLC.

On January 15, 2021, we acquired Future Infrastructure Holdings, LLC (“FIH”) for approximately \$604.7 million, net of cash acquired. FIH is a provider of non-discretionary maintenance, repair, upgrade, and installation services to the telecommunication, regulated gas utility, and infrastructure markets. FIH furthers our strategic plan to expand our service lines, enter new markets, and grow our MSA revenue base. The transaction directly aligns with our strategy to grow in large, higher growth, higher margin markets, and expands our utility services capabilities. The total purchase price was funded through a combination of existing cash balances, borrowings under our term loan facility, and borrowings under our revolving credit facility. As discussed in Note 13 – “*Stockholders’ Equity*”, we used the net proceeds from our secondary offering to repay a portion of the borrowings incurred in connection with the acquisition of FIH.

The table below represents the purchase consideration and the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. Significant changes since our initial estimates reported in the first quarter of 2021 primarily relate to a \$6.5 million reduction in the purchase consideration for the final working capital true-up. As a result of this and other adjustments to the initial estimated fair values of the assets acquired and liabilities assumed, goodwill decreased by approximately \$4.2 million since the first quarter of 2021. Adjustments recorded to the estimated fair values of the assets acquired and liabilities assumed are recognized in the period in which the adjustments are determined and calculated as if the accounting had been completed as of the acquisition date.

The final determination of fair value for certain assets and liabilities is subject to further change and will be completed as soon as the information necessary to complete the analysis is obtained. These amounts, which may differ materially from these preliminary estimates, will continue to be refined and will be finalized as soon as possible, but no later than one year from the acquisition date. The primary areas of the preliminary estimates that are not yet finalized relate to the fair value of certain contractual obligations, including sales and use tax liabilities.

Purchase consideration (in thousands)

Total purchase consideration	\$ 615,249
Less cash acquired	(10,525)
Net cash paid	<u>\$ 604,724</u>

Preliminary identifiable assets acquired and liabilities assumed (in thousands)

Cash and cash equivalents	\$	10,525
Accounts receivable		55,470
Contract assets		32,676
Prepaid expenses and other current assets		483
Property, plant and equipment		56,926
Operating lease assets		13,105
Intangible assets:		
Customer relationships		118,000
Tradenames		4,400
Other long-term assets		6,976
Accounts payable and accrued liabilities		(29,673)
Contract liabilities		(2,671)
Long-term debt (including current portion)		(959)
Noncurrent operating lease liabilities, net of current		(10,975)
Other long-term liabilities		(8,612)
Total identifiable net assets		245,671
Goodwill		369,578
Total purchase consideration	\$	<u>615,249</u>

We incorporated the operations of FIH into our Utilities segment. Goodwill associated with the FIH acquisition principally consists of expected benefits from the expansion of our services into the telecommunications market and the expansion of our geographic presence. Goodwill also includes the value of the assembled workforce. Based on the current tax treatment, goodwill is expected to be deductible for income tax purposes over a 15-year period.

The intangible assets acquired with the FIH acquisition consisted of Customer relationships of \$118.0 million and Tradenames of \$4.4 million. The Customer relationships and Tradenames are being amortized over a weighted average useful life of 19 years and one year, respectively.

For the three months ended September 30, 2021, FIH contributed revenue of \$65.1 million and gross profit of \$11.4 million. For the period from January 15, 2021, the acquisition date, to September 30, 2021, FIH contributed revenue of \$198.5 million and gross profit of \$32.0 million.

Acquisition related costs were \$0.4 million and \$14.2 million for the three and nine months ended September 30, 2021, respectively, and are included in "Transaction and related costs" on the Condensed Consolidated Statements of Income. Such costs primarily consisted of professional fees paid to advisors and expense associated with the purchase of Primoris common stock by certain employees of FIH at a 15 percent discount.

Supplemental Unaudited Pro Forma Information for the three and nine months ended September 30, 2021

The following pro forma information for the three and nine months ended September 30, 2021 presents our results of operations as if the acquisition of FIH had occurred at the beginning of 2020. On October 30, 2020, FIH acquired Pridemore Case Holdings, Inc. (“Pride”), which expanded FIH’s operations. Therefore, we have included Pride’s results of operations for the three and nine months ended September 30, 2020 in the pro forma information. 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;
- the pro forma impact of nonrecurring transaction and related costs directly attributable to the acquisition; and
- the pro forma tax effect of both income before income taxes, and the pro forma adjustments, calculated using a tax rate of 27.5% for the three and nine months ended September 30, 2021 and 29.0% for the three and nine months ended September 30, 2020.

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 FIH acquisition been completed on January 1, 2020. For example, the pro forma results do not reflect any operating efficiencies and associated cost savings that we might have achieved with respect to the acquisition (in thousands, except per share amounts):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Revenue	\$ 913,245	\$ 1,029,444	\$ 2,617,630	\$ 2,846,770
Income before provision for income taxes	62,300	67,680	129,601	103,315
Net income attributable to Primoris	45,165	48,052	93,956	73,348
Weighted average common shares outstanding:				
Basic	53,769	49,291	52,407	49,408
Diluted	54,367	49,739	54,946	49,817
Earnings per share:				
Basic	\$ 0.84	\$ 0.97	\$ 1.79	\$ 1.48
Diluted	0.83	0.97	1.71	1.47

Note 6—Revenue

We generate revenue under a range of contracting types, including fixed-price, unit-price, time and material, and cost reimbursable plus fee contracts, each of which has a different risk profile. A substantial portion of our revenue is derived from contracts where scope is adequately defined, and therefore we can reasonably estimate total contract value. For these contracts, revenue is recognized over time as work is completed because of the continuous transfer of control to the customer (typically using an input measure such as costs incurred to date relative to total estimated costs at completion to measure progress). For certain contracts, where scope is not adequately defined and we can’t reasonably estimate total contract value, revenue is recognized primarily on an input basis, based on contract costs incurred as defined within the respective contracts. Costs to obtain contracts are generally not significant and are expensed in the period incurred.

We evaluate whether two or more contracts should be combined and accounted for as one single performance obligation and whether a single contract should be accounted for as more than one performance obligation. ASC 606 defines a performance obligation as a contractual promise to transfer a distinct good or service to a customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our evaluation requires significant judgment and the decision to combine a group of contracts or separate a contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contract and, therefore, is not

distinct. However, occasionally we have contracts with multiple performance obligations. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using the observable standalone selling price, if available, or alternatively our best estimate of the standalone selling price of each distinct performance obligation in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach for each performance obligation.

As of September 30, 2021, we had \$1.4 billion of remaining performance obligations. We expect to recognize approximately 77% of our remaining performance obligations as revenue during the next four quarters and substantially all of the remaining balance by the end of 2023.

Accounting for long-term contracts involves the use of various techniques to estimate total transaction price and costs. For long-term contracts, transaction price, estimated cost at completion and total costs incurred to date are used to calculate revenue 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 revenue 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, politics and any prevailing impacts from the pandemic caused by the coronavirus 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 nature of our contracts gives rise to several types of variable consideration, including contract modifications (change orders and claims), liquidated damages, volume discounts, performance bonuses, incentive fees, and other terms that can either increase or decrease the transaction price. We estimate variable consideration as the most likely amount to which we expect to be entitled. We include estimated amounts in the transaction price to the extent we believe we have an enforceable right, and it is probable that a significant reversal of cumulative revenue recognized will not occur. Our estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us at this time.

Contract modifications result from changes in contract specifications or requirements. We consider unapproved change orders to be contract modifications for which customers have not agreed to both scope and price. We consider claims to be contract modifications for which we seek, 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. Claims can also be caused by non-customer-caused changes, such as rain or other weather delays. Costs associated with contract modifications are included in the estimated costs to complete the contracts and are treated as project costs when incurred. In most instances, contract modifications are for goods or services that are not distinct, and, therefore, are accounted for as part of the existing contract. The effect of a contract modification on the transaction price, and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue on a cumulative catch-up basis. In some cases, settlement of contract modifications may not occur until after completion of work under the contract.

As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in estimated profit on contracts under the cumulative catch-up method. Under this method, the cumulative impact of the profit adjustment is recognized in the period the adjustment is identified. Revenue and profit in future periods of contract performance are recognized using the adjusted estimate. In the three and nine months ended September 30, 2021, revenue recognized from performance obligations satisfied in previous periods was \$23.8 million and \$60.2 million, respectively. If at any time the estimate of contract profitability indicates an anticipated loss on a contract, the projected loss is recognized in full, including the reversal of any previously recognized profit, in the period it is identified and recognized as an "accrued loss provision" which is included in "Contract liabilities" on the Condensed Consolidated Balance Sheets. For contract revenue recognized over time, the accrued loss provision is adjusted so that the gross profit for the contract remains zero in future periods.

At September 30, 2021, we had approximately \$84.1 million of unapproved contract modifications included in the aggregate transaction prices. These contract modifications were in the process of being negotiated in the normal course of business. Approximately \$72.4 million of the contract modifications had been recognized as revenue on a cumulative catch-up basis through September 30, 2021.

In all forms of contracts, we estimate the collectability of contract amounts at the same time that we estimate project costs. If we anticipate that there may be issues associated with the collectability of the full amount calculated as the transaction price, we 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.

The timing of when we bill our customers is generally dependent upon agreed-upon contractual terms, milestone billings based on the completion of certain phases of the work, or when services are provided. Sometimes, billing occurs subsequent to revenue recognition, resulting in unbilled revenue, which is a contract asset. Also, we sometimes receive advances or deposits from our customers before revenue is recognized, resulting in deferred revenue, which is a contract liability.

The caption “Contract assets” in the Condensed Consolidated Balance Sheets represents the following:

- unbilled revenue, which arises when revenue has been recorded but the amount will not be billed until a later date;
- retainage amounts for the portion of the contract price earned by us for work performed, but held for payment by the customer as a form of security until we reach certain construction milestones; and
- contract materials for certain job specific materials not yet installed, which are valued using the specific identification method relating the cost incurred to a specific project.

Contract assets consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Unbilled revenue	\$ 273,849	\$ 192,176
Retention receivable	117,255	115,877
Contract materials (not yet installed)	20,158	17,796
	<u>\$ 411,262</u>	<u>\$ 325,849</u>

Contract assets increased by \$85.4 million compared to December 31, 2020 primarily due to higher unbilled revenue, including \$23.7 million related to the FIH acquisition.

The caption “Contract liabilities” in the Condensed Consolidated Balance Sheets represents the following:

- deferred revenue, which arises when billings are in excess of contracted revenue recognized to date, and
- the accrued loss provision

Contract liabilities consist of the following (in thousands):

	September 30, 2021	December 31, 2020
Deferred revenue	\$ 194,373	\$ 252,781
Accrued loss provision	7,743	14,446
	<u>\$ 202,116</u>	<u>\$ 267,227</u>

Contract liabilities decreased by \$65.1 million compared to December 31, 2020 primarily due to lower deferred revenue.

Revenue recognized for the nine months ended September 30, 2021, that was included in the contract liability balance at December 31, 2020, was approximately \$243.4 million.

The following tables present our revenue disaggregated into various categories.

MSA and Non-MSA revenue was as follows (in thousands):

Segment	For the three months ended September 30, 2021		
	MSA	Non-MSA	Total
Utilities	\$ 410,041	\$ 44,613	\$ 454,654
Energy/Renewables	41,133	309,893	351,026
Pipeline	15,457	92,108	107,565
Total	\$ 466,631	\$ 446,614	\$ 913,245

Segment	For the three months ended September 30, 2020		
	MSA	Non-MSA	Total
Utilities	\$ 319,411	\$ 93,794	413,205
Energy/Renewables	35,921	279,194	315,115
Pipeline	29,403	184,977	214,380
Total	\$ 384,735	\$ 557,965	\$ 942,700

Segment	For the nine months ended September 30, 2021		
	MSA	Non-MSA	Total
Utilities	\$ 1,039,743	\$ 175,344	\$ 1,215,087
Energy/Renewables	126,997	911,903	1,038,900
Pipeline	51,354	307,843	359,197
Total	\$ 1,218,094	\$ 1,395,090	\$ 2,613,184

Segment	For the nine months ended September 30, 2020		
	MSA	Non-MSA	Total
Utilities	\$ 780,453	\$ 222,829	\$ 1,003,282
Energy/Renewables	101,049	794,366	895,415
Pipeline	108,952	586,510	695,462
Total	\$ 990,454	\$ 1,603,705	\$ 2,594,159

Revenue by contract type was as follows (in thousands):

Segment	For the three months ended September 30, 2021			
	Fixed-price	Unit-price	Cost reimbursable (1)	Total
Utilities	\$ 33,280	\$ 311,191	\$ 110,183	\$ 454,654
Energy/Renewables	212,956	65,904	72,166	351,026
Pipeline	68,232	1,142	38,191	107,565
Total	\$ 314,468	\$ 378,237	\$ 220,540	\$ 913,245

(1) Includes time and material and cost reimbursable plus fee contracts.

Segment	For the three months ended September 30, 2020			
	Fixed-price	Unit-price	Cost reimbursable (1)	Total
Utilities	\$ 30,597	\$ 254,743	\$ 127,865	\$ 413,205
Energy/Renewables	79,496	81,754	153,865	315,115
Pipeline	152,301	45,627	16,452	214,380
Total	\$ 262,394	\$ 382,124	\$ 298,182	\$ 942,700

(1) Includes time and material and cost reimbursable plus fee contracts.

Segment	For the nine months ended September 30, 2021			
	Fixed-price	Unit-price	Cost reimbursable (1)	Total
Utilities	\$ 90,142	844,314	280,631	\$ 1,215,087
Energy/Renewables	564,552	\$ 231,715	\$ 242,633	1,038,900
Pipeline	272,501	2,776	83,920	359,197
Total	<u>\$ 927,195</u>	<u>\$ 1,078,805</u>	<u>\$ 607,184</u>	<u>\$ 2,613,184</u>

(1) Includes time and material and cost reimbursable plus fee contracts.

Segment	For the nine months ended September 30, 2020			
	Fixed-price	Unit-price	Cost reimbursable (1)	Total
Utilities	\$ 111,848	\$ 676,197	\$ 215,237	\$ 1,003,282
Energy/Renewables	380,907	252,142	262,366	895,415
Pipeline	191,652	277,788	226,022	695,462
Total	<u>\$ 684,407</u>	<u>\$ 1,206,127</u>	<u>\$ 703,625</u>	<u>\$ 2,594,159</u>

(1) Includes time and material and cost reimbursable plus fee contracts.

Each of these contract types has a different risk profile. Typically, we assume more risk with fixed-price contracts. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular fixed-price contract. However, these types of contracts offer additional profits when we complete the work for less cost than originally estimated. Unit-price and cost reimbursable contracts generally subject us to lower risk. Accordingly, the associated fees are usually lower than fees earned on fixed-price contracts. Under these contracts, our profit may vary if actual costs vary significantly from the negotiated rates.

Note 7—Goodwill and Intangible Assets

The change in goodwill by segment for the nine months ended September 30, 2021 was as follows (in thousands):

	Utilities	Energy/Renewables	Pipeline	Total
Balance at December 31, 2020	\$ 96,344	\$ 66,344	\$ 52,415	\$ 215,103
Goodwill acquired during the period	369,578	—	—	369,578
Balance at September 30, 2021	<u>\$ 465,922</u>	<u>\$ 66,344</u>	<u>\$ 52,415</u>	<u>\$ 584,681</u>

The table below summarizes the intangible asset categories and amounts, which are amortized on a straight-line basis (in thousands):

	September 30, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Intangible assets, net	Gross Carrying Amount	Accumulated Amortization	Intangible assets, net
Tradename	\$ 20,440	(18,408)	2,032	\$ 16,040	\$ (14,793)	\$ 1,247
Customer relationships	211,227	(41,176)	170,051	91,000	(31,400)	59,600
Non-compete agreements	1,900	(1,818)	82	1,900	(1,735)	165
Total	<u>\$ 233,567</u>	<u>\$ (61,402)</u>	<u>\$ 172,165</u>	<u>\$ 108,940</u>	<u>\$ (47,928)</u>	<u>\$ 61,012</u>

Amortization expense of intangible assets was \$4.6 million and \$2.2 million for the three months ended September 30, 2021 and 2020, respectively, and \$13.5 million and \$6.8 million for the nine months ended September 30, 2021 and 2020. Estimated future amortization expense for intangible assets is as follows (in thousands):

For the Years Ending December 31,	Estimated Intangible Amortization Expense
2021 (remaining three months)	\$ 4,645
2022	13,218
2023	12,200
2024	11,481
2025	10,759
Thereafter	119,862
	<u>\$ 172,165</u>

Note 8—Accounts Payable and Accrued Liabilities

At September 30, 2021 and December 31, 2020, accounts payable included retention amounts of approximately \$18.2 million and \$12.6 million, respectively. These amounts owed to subcontractors have been retained pending contract completion and customer acceptance of jobs.

The following is a summary of accrued liabilities (in thousands):

	September 30, 2021	December 31, 2020
Payroll and related employee benefits	\$ 117,533	\$ 81,088
Current operating lease liability	64,631	73,033
Casualty insurance reserves	5,069	8,365
Corporate income taxes and other taxes	28,177	13,783
Other	18,594	24,404
	<u>\$ 234,004</u>	<u>\$ 200,673</u>

Note 9—Credit Agreements

Long term debt and credit facilities consists of the following (in thousands):

	September 30, 2021	December 31, 2020
Term loan	\$ 527,688	\$ 192,500
Commercial equipment notes	117,558	85,783
Mortgage notes	37,798	38,795
Total debt	683,044	317,078
Unamortized debt issuance costs	(4,460)	(521)
Total debt, net	\$ 678,584	\$ 316,557
Less: current portion	(68,028)	(47,722)
Long-term debt, net of current portion	<u>\$ 610,556</u>	<u>\$ 268,835</u>

The weighted average interest rate on total debt outstanding at September 30, 2021 and December 31, 2020 was 2.8% and 3.7%, respectively.

Credit Agreement

On September 29, 2017, we entered into an amended and restated credit agreement, as amended July 9, 2018 and August 3, 2018 (the “Credit Agreement”) with CIBC Bank USA, as administrative agent (the “Administrative Agent”) and co-lead arranger, and the financial parties thereto (collectively, the “Lenders”). The Credit Agreement consisted of a \$220.0 million term loan (the “Term Loan”) and a \$200.0 million revolving credit facility, whereby the Lenders agreed to make loans on a revolving basis from time to time and to issue letters of credit for up to the \$200.0 million committed amount. The Credit Agreement contained an accordion feature that would allow us to increase the Term Loan or the borrowing

capacity under the Revolving Credit Facility by up to \$75.0 million. The Credit Agreement was scheduled to mature on July 9, 2023.

On January 15, 2021, we entered into the Second Amended and Restated Credit Agreement (the “Amended Credit Agreement”) with the Administrative Agent and the Lenders, amending and restating our Credit Agreement to increase the Term Loan by \$400.0 million to an aggregate principal amount of \$592.5 million (the “New Term Loan”) and to extend the maturity date of the Credit Agreement from July 9, 2023 to January 15, 2026.

In addition to the New Term Loan, the Amended Credit Agreement consists of the existing \$200.0 million revolving credit facility (“Revolving Credit Facility”) whereby the Lenders agreed to make loans on a revolving basis from time to time and to issue letters of credit for up to the \$200.0 million committed amount, and contains an accordion feature that would allow us to increase the New Term Loan or the borrowing capacity under the Revolving Credit Facility by up to \$75.0 million.

At September 30, 2021, there were no borrowings outstanding under the Revolving Credit Facility, commercial letters of credit outstanding were \$44.5 million, and available borrowing capacity was \$155.5 million.

Under the Amended Credit Agreement, we must make quarterly principal payments on the New Term Loan in an amount equal to approximately \$7.4 million, with the balance due on January 15, 2026.

The proceeds from the New Term Loan were used to finance the acquisition of FIH.

We capitalized \$4.7 million of debt issuance costs during the first quarter of 2021 associated with the Amended Credit Agreement that is being amortized as interest expense over the life of the Amended Credit Agreement.

The principal amount of all loans under the Amended Credit Agreement will bear interest at either: (i) LIBOR plus an applicable margin as specified in the Amended Credit Agreement (based on our senior debt to EBITDA ratio as defined in the Amended Credit Agreement), or (ii) the Base Rate (which is the greater of (a) the Federal Funds Rate plus 0.5% or (b) the prime rate as announced by the Administrative Agent) plus an applicable margin as specified in the Amended Credit Agreement. Quarterly non-use fees, letter of credit fees and administrative agent fees are payable at rates specified in the Amended Credit Agreement.

The principal amount of any loan drawn under the Amended Credit Agreement may be prepaid in whole or in part at any time, with a minimum prepayment of \$5.0 million. During the nine months ended September 30, 2021, we made additional payments on our New Term Loan of \$42.6 million.

Loans made under the Credit Agreement and the Amended Credit Agreement are secured by our assets, including, among others, our cash, inventory, equipment (excluding equipment subject to permitted liens), and accounts receivable. Certain of our domestic subsidiaries have issued joint and several guaranties in favor of the Lenders for all amounts under the Credit Agreement and the Amended Credit Agreement.

The Credit Agreement and Amended Credit Agreement contain various restrictive and financial covenants including, among others, a senior debt/EBITDA ratio and debt service coverage requirements. In addition, the Credit Agreement and the Amended Credit Agreement include restrictions on investments, change of control provisions and provisions in the event we dispose of more than 20% of our total assets.

We were in compliance with the covenants for the Amended Credit Agreement at September 30, 2021.

On September 13, 2018, we entered into an interest rate swap agreement to manage our exposure to the fluctuations in variable interest rates. The swap effectively exchanged the interest rate on 75% of the debt outstanding under our original Term Loan from variable LIBOR to a fixed rate of 2.89% per annum, in each case plus an applicable margin, which was 2.00% at September 30, 2021.

Canadian Credit Facilities

We have a demand credit facility for \$4.0 million in Canadian dollars with a Canadian bank for purposes of issuing commercial letters of credit in Canada. At September 30, 2021, commercial letters of credit outstanding were \$0.5 million in Canadian dollars, and the available borrowing capacity was \$3.5 million in Canadian dollars. The credit facility

contains a working capital restrictive covenant for OnQuest Canada, ULC, our wholly owned subsidiary. At September 30, 2021, OnQuest Canada, ULC was in compliance with the covenant.

We have a credit facility for \$10.0 million in Canadian dollars with CIBC Bank for working capital purposes in the normal course of business (“Working Capital Credit Facility”). At September 30, 2021, there were no outstanding borrowings under the Working Capital Credit Facility, and available borrowing capacity was \$10.0 million in Canadian dollars. The Working Capital Credit Facility contains a cross default restrictive covenant where a default under our Amended Credit Agreement will represent a default in the Working Capital Credit Facility.

Note 10 — Derivative Instruments

We are exposed to certain market risks related to changes in interest rates. To monitor and manage these market risks, we have established risk management policies and procedures. We do not enter into derivative instruments for any purpose other than hedging interest rate risk. None of our derivative instruments are used for trading purposes.

Interest Rate Risk. We are exposed to variable interest rate risk as a result of variable-rate borrowings under our Credit Agreement. To manage fluctuations in cash flows resulting from changes in interest rates on a portion of our variable-rate debt, we entered into an interest rate swap agreement on September 13, 2018 with an initial notional amount of \$165.0 million, which was not designated as a hedge for accounting purposes. The notional amount of the swap will be adjusted down each quarter by a portion of the required principal payments made on the original Term Loan. The swap effectively changes the variable-rate cash flow exposure on the debt obligations to fixed rates. The fair value of outstanding interest rate swap derivatives can vary significantly from period to period depending on the total notional amount of swap derivatives outstanding and fluctuations in market interest rates compared to the interest rates fixed by the swap. As of September 30, 2021, and December 31, 2020, our outstanding interest rate swap agreement contained a notional amount of \$137.2 million and \$144.4 million, respectively, with a maturity date of July 10, 2023.

Credit Risk. By using derivative instruments to economically hedge exposures to changes in interest rates, we are exposed to counterparty credit risk. Credit risk is the failure of a counterparty to perform under the terms of a derivative contract. When the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, we do not possess credit risk. We minimize the credit risk in derivative instruments by entering into transactions with high quality counterparties. We have entered into netting agreements, including International Swap Dealers Association (“ISDA”) Agreements, which allow for netting of contract receivables and payables in the event of default by either party.

The following table summarizes the fair value of our derivative contracts included in the Condensed Consolidated Balance Sheets (in thousands):

	Balance Sheet Location	September 30, 2021	December 31, 2020
Interest rate swap	Other long-term liabilities	\$ 6,022	\$ 9,205

The following table summarizes the amounts recognized with respect to our derivative instruments within the Condensed Consolidated Statements of Income (in thousands):

Location of (Gain) Loss Recognized on Derivatives	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest rate swap	\$ 83	\$ (11)	\$ (154)	\$ 6,262

Cash flows from derivatives settled are reported as cash flows from operating activities.

Note 11—Income Taxes

We are subject to tax liabilities imposed by multiple jurisdictions. We determine our best estimate of the annual effective tax rate at each interim period using expected annual pre-tax earnings, statutory tax rates and available tax planning opportunities. Certain significant or unusual items are separately recognized in the quarter in which they occur which can cause variability in the effective tax rate from quarter to quarter. We recognize interest and penalties related to uncertain tax positions, if any, as an income tax expense.

We do not include the income tax expense or benefit related to the net earnings or loss attributable to noncontrolling interest in our income tax expense as the entities are considered pass-through entities and, as such, the income tax expense or benefit is attributable to its owners. The effective tax rate on income (including and excluding noncontrolling interests) for the nine months ended September 30, 2021 and 2020 was 27.5% and 29.0%, respectively. For the first nine months of each of 2021 and 2020, our tax rate differs from the U.S. federal statutory rate of 21.0% primarily due to the impact of state income taxes and nondeductible components of per diem expenses.

Our U.S. federal income tax returns are generally no longer subject to examination for tax years before 2017. The statutes of limitation of state and foreign jurisdictions generally vary between 3 to 5 years. Accordingly, our state and foreign income tax returns are generally no longer subject to examination for tax years before 2015.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for temporary differences between the financial reporting bases and tax bases of assets and liabilities based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based upon consideration of available evidence, including future reversals of existing taxable temporary differences, future projected taxable income, the length of the tax asset carryforward periods and tax planning strategies. The effects of remeasurement of deferred tax assets and liabilities resulting from changes in tax rates are recognized in income in the period of enactment.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted by the US Government in response to the COVID-19 pandemic. We deferred FICA tax payments through the end of 2020 as allowed under the CARES Act. This deferral was \$43.2 million at September 30, 2021, and is included in Accrued liabilities and Other long-term liabilities on our Condensed Consolidated Balance Sheet. Half of the deferral is due on December 31, 2021, and the other half is due on December 31, 2022.

Note 12—Dividends and Earnings Per Share

We paid cash dividends during 2021 and 2020 as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Date Paid</u>	<u>Amount Per Share</u>
February 21, 2020	March 31, 2020	April 15, 2020	\$ 0.06
May 1, 2020	June 30, 2020	July 15, 2020	0.06
July 31, 2020	September 30, 2020	October 15, 2020	0.06
November 5, 2020	December 31, 2020	January 15, 2021	0.06
February 19, 2021	March 31, 2021	April 15, 2021	0.06
May 4, 2021	June 30, 2021	July 15, 2021	0.06
August 3, 2021	September 30, 2021	October 15, 2021	0.06

The payment of future dividends is contingent upon our revenue and earnings, capital requirements and our general financial condition, as well as contractual restrictions and other considerations deemed relevant by the Board of Directors.

The table below presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2021 and 2020 (in thousands, except per share amounts).

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Numerator:				
Net income attributable to Primoris	\$ 44,053	\$ 43,941	\$ 86,193	\$ 73,163
Denominator:				
Weighted average shares for computation of basic earnings per share:	53,769	48,253	52,354	48,370
Dilutive effect of shares issued to independent directors	3	3	4	5
Dilutive effect of restricted stock units	595	318	529	337
Weighted average shares for computation of diluted earnings per share	54,367	48,574	52,887	48,712
Earnings per share attributable to Primoris:				
Basic	\$ 0.82	\$ 0.91	\$ 1.65	\$ 1.51
Diluted	\$ 0.81	\$ 0.90	\$ 1.63	\$ 1.50

Note 13—Stockholders' Equity

Common stock

We issued 25,987 and 34,524 shares of common stock in the nine months ended September 30, 2021 and 2020, respectively, under our long-term retention plan ("LTR Plan"). The shares were purchased by the participants in the LTR Plan with payment made to us of \$0.5 million and \$0.6 million in the nine months ended September 30, 2021 and 2020, respectively. Our LTR Plan for certain managers and executives allows participants to use a portion of their annual bonus amount to purchase our common stock at a discount from the market price. The shares purchased in the nine months ended September 30, 2021 were a portion of bonus amounts earned in 2020, and the number of shares purchased was calculated based on 75% of the average daily closing market price of our common stock during December 2020. The shares purchased in the nine months ended September 30, 2020 were for bonus amounts earned in 2019, and the number of shares was calculated at 75% of the average daily closing market price during December 2019.

During the three months ended September 30, 2021 and 2020, we issued 7,328 and 9,086 shares of common stock, respectively as part of the quarterly compensation of the non-employee members of the Board of Directors. During the nine months ended September 30, 2021 and 2020, we issued 24,032 and 36,281 shares of common stock, respectively, as part of the quarterly compensation of the non-employee members of the Board of Directors.

During the three and nine months ended September 30, 2021, 62,277 and 102,041 restricted stock units ("RSUs"), net of forfeitures for tax withholdings, respectively, were converted to common stock. During the three and nine months ended September 30, 2020, 41,119 and 54,635 RSUs, net of forfeitures for tax withholdings, respectively, were converted to common stock.

In connection with the acquisition of FIH, we offered certain FIH employees the option to purchase shares of our common stock at a 15 percent discount of the closing market price of our common stock on the date of the acquisition. During the nine months ended September 30, 2021, such employees purchased 1,038,309 shares of common stock, net of forfeitures for tax withholdings, with payment made to us of \$28.9 million, resulting in the recognition of \$5.1 million in stock compensation expense included in Transaction and related costs in the Condensed Consolidated Statement of Income.

Secondary Offering

In March 2021, we entered into an underwriting agreement with Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and UBS Securities LLC, as representatives of the underwriters, in connection with a public offering, pursuant to which we agreed to issue and sell 4,500,000 shares of common stock, par value \$.0001 per share. The shares were offered and sold at a public offering price of \$35.00 per share. Our gross proceeds of the offering, before deducting underwriting discounts, commissions and offering expenses, were approximately \$157.5 million. Our net proceeds were approximately \$149.3 million and were used to repay a portion of the borrowings incurred under our Amended Credit Agreement in connection with the acquisition of FIH.

Share Repurchase Plan

In February 2020, our Board of Directors authorized a \$25.0 million share repurchase program. Under the share repurchase program, we could, depending on market conditions, share price and other factors, acquire shares of our common stock on the open market or in privately negotiated transactions. In the three months ended September 30, 2020, we purchased and cancelled 174,698 shares of common stock, which in the aggregate equaled \$3.1 million at an average share price of \$17.80. In the nine months ended September 30, 2020, we purchased and cancelled 694,260 shares of common stock, which in the aggregate equaled \$11.5 million at an average share price of \$16.50. The share repurchase plan expired on December 31, 2020.

Note 14—Leases

We lease administrative and operational facilities, which are generally longer-term, project specific facilities or yards, and construction equipment under non-cancelable operating leases. We determine if an arrangement is a lease at inception. We have lease agreements with lease and non-lease components, which are generally accounted for separately. Operating leases are included in operating lease assets, accrued liabilities, and noncurrent operating lease liabilities on our Condensed Consolidated Balance Sheets.

Operating lease assets and operating lease liabilities are recognized at commencement date based on the present value of the future minimum lease payments over the lease term. In determining our lease term, we include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date to determine the present value of future payments. Lease expense from minimum lease payments is recognized on a straight-line basis over the lease term.

Our leases have remaining lease terms that expire at various dates through 2030, some of which may include options to extend the leases for up to 5 years. The exercise of lease extensions is at our sole discretion. Periodically, we sublease excess facility space, but any sublease income is generally not significant. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of lease expense are as follows (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Operating lease expense (1)	\$ 19,893	\$ 22,652	\$ 62,717	\$ 68,784

(1) Includes short-term leases which are immaterial.

Our operating lease liabilities are reported on the Condensed Consolidated Balance Sheets as follows (in thousands):

	September 30, 2021	December 31, 2020
Accrued liabilities	\$ 64,631	\$ 73,033
Noncurrent operating lease liabilities, net of current portion	110,819	137,913
	<u>\$ 175,450</u>	<u>\$ 210,946</u>

Note 15—Commitments and Contingencies

Legal proceedings—We are subject to claims and legal proceedings arising out of our business. We provide for costs related to contingencies when a loss from such claims is probable and the amount is reasonably estimable. In determining whether it is possible to provide an estimate of loss, or range of possible loss, we review and evaluate our litigation and regulatory matters on a quarterly basis in light of potentially relevant factual and legal developments. If we determine an unfavorable outcome is not probable, or probable but not reasonably estimable, we do not accrue for a potential litigation loss.

Management is unable to ascertain the ultimate outcome of other claims and legal proceedings; however, after review and consultation with counsel and taking into consideration relevant insurance coverage and related deductibles/self-insurance retention, management believes that it has meritorious defenses to such claims and believes that the reasonably possible outcome of such claims will not, individually or in the aggregate, have a material adverse effect on our consolidated results of operations, financial condition or cash flow.

Bonding — At September 30, 2021 and December 31, 2020, we had bid and completion bonds issued and outstanding totaling approximately \$2.9 billion and \$3.2 billion, respectively. The remaining performance obligation on those bonded projects totaled approximately \$704.5 million and \$696.0 million at September 30, 2021 and December 31, 2020, respectively.

Note 16—Reportable Segments

Through the end of 2020, we segregated our business into five reportable segments: the Power, Industrial and Engineering segment, the Pipeline and Underground segment, the Utilities and Distribution segment, the Transmission and Distribution segment, and the Civil segment. In the first quarter of 2021, we changed our reportable segments in connection with realignment of our internal organization and management structure. The segment changes reflect the focus of our CODM on the range of services we provide to our end user markets. Our CODM regularly reviews our operating and financial performance based on these new segments.

The current reportable segments include the Utilities segment, the Energy/Renewables segment, and the Pipeline segment. Segment information for prior periods has been restated to conform to the new segment presentation.

Each of our reportable segments is composed of similar business units that specialize in services unique to the segment. Driving the end-user focused segments are differences in the economic characteristics of each segment, the nature of the services provided by each segment; the production processes of each segment; the type or class of customer using the segment's services; the methods used by the segment to provide the services; and the regulatory environment of each segment's customers.

The classification of revenue and gross profit for segment reporting purposes can at times require judgment on the part of management. Our segments may perform services across industries or perform joint services for customers in multiple industries. To determine reportable segment gross profit, certain allocations, including allocations of shared and indirect costs, such as facility costs, equipment costs and indirect operating expenses, were made.

The following is a brief description of the reportable segments:

The Utilities segment operates throughout the United States and specializes in a range of services, including telecommunications and installation and maintenance of new and existing natural gas and electric utility distribution and transmission systems.

The Energy/Renewables segment operates throughout the United States and in Canada and specializes in a range of services that include engineering, procurement, and construction, retrofits, highway and bridge construction, demolition, site work, soil stabilization, mass excavation, flood control, upgrades, repairs, outages, and maintenance services for entities in the renewable energy and energy storage, renewable fuels, and petroleum and petrochemical industries, as well as state departments of transportation.

The Pipeline segment operates throughout the United States and specializes in a range of services, including pipeline construction and maintenance, pipeline facility and integrity services, installation of compressor and pump stations, and metering facilities for entities in the petroleum and petrochemical industries, as well as gas, water, and sewer utilities.

All intersegment revenue and gross profit, which was immaterial, has been eliminated in the following tables. Total assets by segment is not presented as our CODM as defined by ASC 280 does not review or allocate resources based on segment assets.

Segment Revenue

Revenue by segment was as follows (in thousands):

Segment	For the three months ended September 30,			
	2021		2020	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Utilities	\$ 454,654	49.8%	\$ 413,205	43.8%
Energy/Renewables	351,026	38.4%	315,115	33.5%
Pipeline	107,565	11.8%	214,380	22.7%
Total	<u>\$ 913,245</u>	<u>100.0%</u>	<u>\$ 942,700</u>	<u>100.0%</u>

Segment	For the nine months ended September 30,			
	2021		2020	
	Revenue	% of Total Revenue	Revenue	% of Total Revenue
Utilities	\$ 1,215,087	46.5%	\$ 1,003,282	38.7%
Energy/Renewables	1,038,900	39.8%	895,415	34.5%
Pipeline	359,197	13.7%	695,462	26.8%
Total	<u>\$ 2,613,184</u>	<u>100.0%</u>	<u>\$ 2,594,159</u>	<u>100.0%</u>

Segment Gross Profit

Gross profit by segment was as follows (in thousands):

Segment	For the three months ended September 30,			
	2021		2020	
	Gross Profit	% of Segment Revenue	Gross Profit	% of Segment Revenue
Utilities	\$ 63,715	14.0%	\$ 68,135	16.5%
Energy/Renewables	35,926	10.2%	27,501	8.7%
Pipeline	27,795	25.8%	28,045	13.1%
Total	<u>\$ 127,436</u>	14.0%	<u>\$ 123,681</u>	13.1%

Segment	For the nine months ended September 30,			
	2021		2020	
	Gross Profit	% of Segment Revenue	Gross Profit	% of Segment Revenue
Utilities	\$ 134,280	11.1%	\$ 130,286	13.0%
Energy/Renewables	111,825	10.8%	70,605	7.9%
Pipeline	74,538	20.8%	71,567	10.3%
Total	<u>\$ 320,643</u>	12.3%	<u>\$ 272,458</u>	10.5%

Segment Goodwill

The amount of goodwill recorded by each segment at September 30, 2021 and at December 31, 2020 is presented in Note 7 – “Goodwill and Intangible Assets”.

Geographic Region — Revenue and Total Assets

The majority of our revenue is derived from customers in the United States with approximately 4.4% and 3.5% generated from sources outside of the United States during the nine months ended September 30, 2021 and 2020, respectively, principally in Canada. At September 30, 2021 and December 31, 2020, approximately 3.8% and 3.9%, respectively, of total assets were located outside of the United States, principally in Canada.

Note 17—Subsequent Events

Cash Dividend

On November 3, 2021, the Board of Directors declared a cash dividend of \$0.06 per share of common stock for stockholders of record as of December 31, 2021, payable on or about January 14, 2022.

Share Repurchase Plan

On November 3, 2021, our Board of Directors authorized a \$25.0 million share repurchase program. Under the share repurchase program, we can, depending on market conditions, share price and other factors, acquire shares of our common stock on the open market or in privately negotiated transactions. The share repurchase plan expires on December 31, 2022.

PRIMORIS SERVICES CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 ("Third Quarter 2021 Report") 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 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 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 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. Actual results may differ materially as a result of a number of factors, including, among other things, customer timing, project duration, weather, and general economic conditions; changes in our mix of customers, projects, contracts and business; regional or national and/or general economic conditions and demand for our services; macroeconomic impacts arising from the long duration of the COVID-19 pandemic, including labor shortages and supply chain disruptions; price, volatility, and expectations of future prices of oil, natural gas, and natural gas liquids; variations and changes in the margins of projects performed during any particular quarter; increases in the costs to perform services caused by changing conditions; the termination, or expiration of existing agreements or contracts; the budgetary spending patterns of customers; increases in construction costs that we may be unable to pass through to our customers; cost or schedule overruns on fixed-price contracts; availability of qualified labor for specific projects; changes in bonding requirements and bonding availability for existing and new agreements; the need and availability of letters of credit; costs we incur to support growth, whether organic or through acquisitions; the timing and volume of work under contract; losses experienced in our operations; the results of the review of prior period accounting on certain projects; developments in governmental investigations and/or inquiries; intense competition in the industries in which we operate; failure to obtain favorable results in existing or future litigation or regulatory proceedings, dispute resolution proceedings or claims, including claims for additional costs; failure of our partners, suppliers or subcontractors to perform their obligations; cyber-security breaches; failure to maintain safe worksites; risks or uncertainties associated with events outside of our control, including severe weather conditions, public health crises and pandemics (such as COVID-19), political crises or other catastrophic events; client delays or defaults in making payments; the availability of credit and restrictions imposed by credit facilities; failure to implement strategic and operational initiatives; risks or uncertainties associated with acquisitions, dispositions and investments; possible information technology interruptions or inability to protect intellectual property; the Company's failure, or the failure of our agents or partners, to comply with laws; the Company's ability to secure appropriate insurance; new or changing legal requirements, including those relating to environmental, health and safety matters; the loss of one or a few clients that account for a significant portion of the Company's revenues; asset impairments; and risks arising from the inability to successfully integrate acquired businesses, including FIH. We discuss many of these risks in detail in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020 and our other filings with the Securities and Exchange Commission ("SEC"). You should read this Third Quarter 2021 Report, our Annual Report on Form 10-K for the year ended December 31, 2020 and our other filings with the SEC 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 these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Third Quarter 2021 Report. We assume no obligation to update these 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.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and the accompanying notes included in Part 1, Item 1 of this Third Quarter 2021 Report and our Annual Report on Form 10-K for the year ended December 31, 2020.

Introduction

We are one of the leading providers of specialty contracting services operating mainly in the United States and Canada. We provide a wide range of specialty construction services, fabrication, maintenance, replacement, and engineering services to a diversified base of customers.

Through the end of 2020, we segregated our business into five reportable segments: The Power, Industrial and Engineering segment, the Pipeline and Underground segment, the Utilities and Distribution segment, the Transmission and Distribution segment, and the Civil segment. In the first quarter 2021, we changed our reportable segments in connection with a realignment of our internal organization and management structure. The segment changes reflect the focus of our chief operating decision maker (“CODM”) on the range of services we provide to our end user markets. Our CODM regularly reviews our operating and financial performance based on these segments.

The current reportable segments include the Utilities segment, the Energy/Renewables segment and the Pipeline Services (“Pipeline”) segment.

The new Utilities segment is composed of the previous Utilities and Distribution and Transmission and Distribution segments. The Utilities segment operates throughout the United States and specializes in a range of services, including telecommunications, installation and maintenance of new and existing natural gas and electric utility distribution and transmission systems.

The Energy/Renewables segment is composed of the previous Power, Industrial and Engineering and Civil segments. This new segment operates throughout the United States and in Canada and specializes in a range of services that include engineering, procurement, and construction, retrofits, highway and bridge construction, demolition, site work, soil stabilization, mass excavation, flood control, upgrades, repairs, outages, and maintenance services for entities in the renewable energy and energy storage, renewable fuels, and petroleum and petrochemical industries, as well as state departments of transportation.

The Pipeline and Underground segment has become the new Pipeline segment. The Pipeline segment operates throughout the United States and specializes in a range of services, including pipeline construction and maintenance, pipeline facility and integrity services, installation of compressor and pump stations, and metering facilities for entities in the petroleum and petrochemical industries, as well as gas, water, and sewer utilities.

We have longstanding customer relationships with major utility, refining, petrochemical, power, midstream, and engineering companies, and state departments of transportation. We have completed major underground and industrial projects for a number of large natural gas transmission and petrochemical companies in the United States, major electrical and gas projects for a number of large utility companies in the 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 daily work orders to as long as 36 months, and occasionally longer, 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 revenue in any given year.

We generate revenue under a range of contracting types, including fixed-price, unit-price, time and material, and cost reimbursable plus fee contracts. A substantial portion of our revenue is derived from contracts where scope is adequately defined, and therefore we can reasonably estimate total contract value. For these contracts, revenue is recognized over time as work is completed because of the continuous transfer of control to the customer (typically using an input measure such as costs incurred to date relative to total estimated costs at completion to measure progress). For certain contracts, where scope is not adequately defined and we can’t reasonably estimate total contract value, revenue is recognized primarily on an input basis, based on contract costs incurred as defined within the respective contracts.

The classification of revenue and gross profit for segment reporting purposes can at times require judgment on the part of management. Our segments may perform services across industries or perform joint services for customers in multiple industries. To determine reportable segment gross profit, certain allocations, including allocations of shared and indirect costs, such as facility costs, equipment costs and indirect operating expenses were made.

Acquisition of Future Infrastructure Holdings, LLC.

On January 15, 2021, we acquired Future Infrastructure Holdings, LLC (“FIH”) for approximately \$604.7 million, net of cash acquired. FIH was incorporated into our Utilities segment and is a provider of non-discretionary maintenance, repair, upgrade, and installation services to the telecommunication, regulated gas utility, and infrastructure markets. FIH furthers our strategic plan to expand our service lines, enter new markets, and grow our MSA revenue base. The transaction directly aligns with our strategy to grow in large, higher growth, higher margin markets, and expands our utility services capabilities. The total purchase price was funded through a combination of existing cash balances, borrowings under our term loan facility, and borrowings under our revolving credit facility. As discussed in Note 13 – “*Stockholders’ Equity*”, included in the unaudited notes to our condensed consolidated financial statements included under Part I of this Form 10-Q, we used the net proceeds from our secondary offering to repay a portion of the borrowings incurred in connection with the acquisition of FIH.

Material trends and uncertainties

We generate our revenue from construction and engineering projects, as well as from providing a variety of specialty construction services. We depend in part on spending by companies in the telecommunications, gas and electric utility industries, the energy, chemical, and oil and gas industries, as well as state departments of transportation and municipal water and wastewater customers. Over the past several years, each segment has benefited from demand for more efficient and more environmentally friendly energy and power facilities, more reliable gas and electric utility infrastructure, local highway and bridge needs, and from the activity level in the oil and gas industry. However, periodically, each of these industries and government agencies is adversely affected by macroeconomic conditions. Economic and other factors outside of our control may affect the amount and size of contracts we are awarded in any particular period.

In March 2020, the COVID-19 outbreak was declared a National Public Health Emergency which has spread throughout the world and has adversely impacted global activity and contributed to significant volatility in financial markets. In an effort to contain COVID-19 or slow its spread, governments around the world enacted various measures, including orders to close all businesses not deemed “essential”, isolate residents to their homes or places of residence, and practice social distancing when engaging in essential activities. While our services have generally been deemed to be essential services, all segments have reported various levels of project interruptions and restrictions that have delayed project timelines from those originally planned. In some cases, we have experienced temporary work stoppages. This led to general inefficiencies from having to start and stop work, re-sequencing work, requiring on-site health screenings before entering a job site, and following proper social distancing practices. We have also been restricted from completing work or have been prevented from starting work on certain projects. However, despite these impacts, our work has generally been deemed essential, our business model appears to be resilient, and we have adapted accordingly, including making salary or headcount reductions where appropriate.

COVID-19 vaccination coverage has broadened considerably across the United States since the vaccines were first approved and became available in late 2020, but progress in vaccination rates has slowed. While the vaccines generally have been reported to be highly effective against the original COVID-19 virus strain, their effectiveness against variants, including the Delta variant, is the subject of evolving and sometimes conflicting information. The duration of effectiveness of the vaccines, as well as their effectiveness against future variants is uncertain. As such, due to the fluidity of the COVID-19 pandemic, uncertainties as to its scope and duration and macroeconomic implications, and ongoing changes in the way that governments, businesses and individuals react and respond to the pandemic, the ultimate impact on the Company remains uncertain. We anticipate that the COVID-19 pandemic could have a continued adverse impact on economic and market conditions and we could see an extended period of global economic slowdown. When COVID-19 is demonstrably contained, we anticipate a rebound in economic activity, depending on the rate, pace, and effectiveness of vaccinations and the containment efforts deployed by various national, state, and local governments, including with respect to new variants.

To date, the inefficiencies experienced have had an unquantifiable impact on our business. We will continue to actively monitor the evolving situation and may take further actions to alter our business operations that we determine are in the best interests of our employees, customers, suppliers, and stakeholders, or as required by federal, state, or local authorities. It is not clear what the potential effects any such alterations or modifications may have on our business or on our financial results for the foreseeable future.

We also monitor our customers and their industries to assess the effect that changes in economic, market, and regulatory conditions may have on them. We have experienced reduced spending, project delays, and project cancellations by some of our customers over the last year, which we attribute to negative economic and market conditions, and we anticipate that these negative conditions and the impact of COVID-19 may continue to affect demand for our services in the near-term.

Fluctuations in market prices of oil, gas and other fuel sources have affected demand for our services. While we have seen signs of a recovery in the price of oil, the volatility in the prices of oil, gas, and liquid natural gas that has occurred in the past few years could create uncertainty with respect to demand for our oil and gas pipeline services, specifically in our pipeline services and Canadian operations, both in the near term and for future projects. While the construction of gathering lines within the oil shale formations may remain at lower levels for an extended period, we believe that over time, the need for pipeline infrastructure for mid-stream and gas utility companies will result in a continuing need for our services. However, a prolonged period of depressed oil and gas prices could delay midstream pipeline opportunities.

The continuing changes in the regulatory environment has affected the demand for our services, either by increasing our work, delaying projects, or cancelling projects. For example, environmental laws and regulations have provided challenges to major pipeline projects, resulting in delays or cancellations that impact the timing of revenue recognition. However, environmental laws and new pipeline regulations could increase the demand for our pipeline maintenance and integrity services. In addition, the regulatory environment in California has resulted in delays for the construction of gas-fired power plants, while regulators continue to search for significant renewable resources. However, the increased demand for renewable resources is also creating demand for our construction and specialty services, such as the need for battery storage and the construction of solar power production facilities.

Seasonality, cyclicity and variability

Our results of operations are subject to quarterly variations. Some of the variation is the result of weather, particularly rain, ice, snow, and named storms, which can impact our ability to perform construction and specialty services. These seasonal impacts can affect revenue and profitability in all of our businesses since utilities defer routine replacement and repair during their period of peak demand. Any quarter can be affected either negatively, or positively by atypical weather patterns in any part of the country. In addition, demand for new projects tends to be lower during the early part of the calendar year due to clients' internal budget cycles. As a result, we usually experience higher revenue and earnings in the third and fourth quarters of the year as compared to the first two quarters.

Our project values range in size from several hundred dollars to several hundred million dollars. The bulk of our work is composed of project sizes that average less than \$5.0 million. We also perform construction projects which tend not to be seasonal, but can fluctuate from year to year based on customer timing, project duration, weather, and general economic conditions. Our business may be affected by declines, or delays in new projects, or by client project schedules. Because of the cyclical nature of our business, the financial results for any period may fluctuate from prior periods, and our financial condition and operating results may vary from quarter to quarter. Results from one quarter may not be indicative of our financial condition, or operating results for any other quarter, or for an entire year.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and that affect the amounts of revenue and expenses reported for each period. These estimates and assumptions must be made because certain information that is used in the preparation of our financial statements cannot be calculated with a high degree of precision from data available, is dependent on future events, or is not capable of being readily calculated based on generally accepted methodologies. Often, these estimates are particularly difficult to determine, and we must exercise significant judgment. Actual results could differ significantly from our estimates, and our estimates could change if they were made under different assumptions or conditions. Our critical accounting policies are described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020. There have been no material changes to our critical accounting policies since December 31, 2020.

Results of Operations

Consolidated Results

The following discussion compares the results of the three and nine months ended September 30, 2021 to the three and nine months ended September 30, 2020.

Revenue

Revenue was \$913.2 million for the three months ended September 30, 2021, a decrease of \$29.5 million, or 3.1%, compared to the same period in 2020. The decrease was primarily due to lower revenue in our Pipeline segment, partially offset by growth in our Energy/Renewables and Utilities segments, including \$65.1 million from our acquisition of FIH.

Revenue was \$2,613.2 million for the nine months ended September 30, 2021, an increase of \$19.0 million, or 0.7%, compared to the same period in 2020. The increase was primarily due to growth in our Energy/Renewables and Utilities segments, including \$198.5 million from our acquisition of FIH, mostly offset by lower revenue in our Pipeline segment.

Gross Profit

Gross profit was \$127.4 million for the three months ended September 30, 2021, an increase of \$3.8 million, or 3.0%, compared to the same period in 2020. The increase was primarily due to our acquisition of FIH (\$11.4 million) and an increase in margins from our legacy operations, partially offset by a net decrease in revenue from our legacy operations. Gross profit as a percentage of revenue increased to 14.0% for the three months ended September 30, 2021, compared to 13.1% for the same period in 2020 as described in the segment results below.

Gross profit was \$320.6 million for the nine months ended September 30, 2021, an increase of \$48.2 million, or 17.7%, compared to the same period in 2020. The increase was primarily due to our acquisition of FIH (\$32.0 million) and an increase in margins from our legacy operations, partially offset by a net decrease in revenue from our legacy operations. Gross profit as a percentage of revenue increased to 12.3% for the nine months ended September 30, 2021, compared to 10.5% for the same period in 2020 as described in the segment results below.

Selling, general and administrative expenses

Selling, general and administrative (“SG&A”) expenses were \$61.7 million during the three months ended September 30, 2021, an increase of \$4.7 million, or 8.3% compared to the same period in 2020, primarily due to \$6.5 million of incremental expense from the FIH acquisition during the period. SG&A expense as a percentage of revenue increased to 6.8% compared to 6.0% for the corresponding period in 2020, primarily due to increased expense as we integrate FIH into our operations, as well as lower revenue from our legacy operations.

SG&A expenses were \$172.9 million during the nine months ended September 30, 2021, an increase of \$20.1 million, or 13.2%, compared to the same period in 2020 primarily due to \$22.0 million of incremental expense from the FIH acquisition during the period. SG&A expense as a percentage of revenue increased to 6.6% compared to 5.9% for the corresponding period in 2020, primarily due to increased expense as we integrate FIH into our operations, as well as lower revenue from our legacy operations.

Transaction and related costs

Transaction and related costs were \$0.4 million for the three months ended September 30, 2021, an increase of \$0.3 million compared to the same period in 2020 primarily due to professional fees paid to advisors associated with the FIH integration in 2021.

Transaction and related costs were \$14.8 million for the nine months ended September 30, 2021, an increase of \$14.7 million compared to the same period in 2020 primarily due to professional fees paid to advisors and expense associated with the purchase of Primoris common stock by certain employees of FIH at a 15 percent discount in 2021.

Other income and expense

Non-operating income and expense items for the three and nine months ended September 30, 2021 and 2020 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Foreign exchange loss, net	\$ —	\$ (77)	\$ (443)	\$ (141)
Other income, net	181	98	555	816
Interest expense, net	(4,698)	(4,715)	(14,154)	(17,172)
Total other expense	<u>\$ (4,517)</u>	<u>\$ (4,694)</u>	<u>\$ (14,042)</u>	<u>\$ (16,497)</u>

Foreign exchange loss, net reflects currency exchange fluctuations associated with our Canadian engineering operation, which operates principally in United States dollars.

Interest expense, net for the three months ended September 30, 2021, was comparable to the same period in 2020 as higher average debt balances from the borrowings incurred related to the FIH acquisition in 2021 were offset by a lower weighted average interest rate.

Interest expense, net for the nine months ended September 30, 2021, decreased compared to the same period in 2020 primarily due to a favorable impact from the change in the fair value of our interest rate swap and a lower weighted average interest rate, partially offset by higher average debt balances from the borrowings incurred related to the FIH acquisition. During the nine months ended September 30, 2021, we had a \$3.2 million unrealized gain on the change in the fair value of our interest rate swap agreement, compared to a \$3.9 million unrealized loss in 2020.

Provision for income taxes

We are subject to tax liabilities imposed by multiple jurisdictions. We determine our best estimate of the annual effective tax rate at each interim period using expected annual pre-tax earnings, statutory tax rates and available tax planning opportunities. Certain significant or unusual items are separately recognized in the quarter in which they occur which can cause variability in the effective tax rate from quarter to quarter. We recognize interest and penalties related to uncertain tax positions, if any, as income tax expense.

The effective tax rate on income attributable to Primoris (excluding noncontrolling interests) was 27.5% for the nine months ended September 30, 2021. The rate differs from the U.S. federal statutory rate of 21.0%, primarily due to state income taxes and nondeductible components of per diem expenses.

We recorded income tax expense for the three months ended September 30, 2021 of \$16.7 million compared to expense of \$17.9 million for the three months ended September 30, 2020.

We recorded income tax expense for the nine months ended September 30, 2021 of \$32.7 million compared to \$29.9 million for the nine months ended September 30, 2020. The \$2.8 million increase in income tax expense was primarily driven by a \$15.8 million increase in pre-tax income (excluding noncontrolling interests), partially offset by a lower effective tax rate.

Segment results

Utilities Segment

Revenue and gross profit for the Utilities segment for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,			
	2021		2020	
	(Thousands)	% of Segment Revenue	(Thousands)	% of Segment Revenue
<i>Utilities Segment</i>				
Revenue	\$ 454,654		\$ 413,205	
Gross profit	63,715	14.0%	68,135	16.5%

	Nine Months Ended September 30,			
	2021		2020	
	(Thousands)	% of Segment Revenue	(Thousands)	% of Segment Revenue
<i>Utilities Segment</i>				
Revenue	\$ 1,215,087		\$ 1,003,282	
Gross profit	134,280	11.1%	130,286	13.0%

Revenue increased by \$41.4 million, or 10.0%, for the three months ended September 30, 2021, compared to the same period in 2020, primarily due to the FIH acquisition (\$65.1 million), partially offset by decreased activity from the impact of customer project and material delays.

Revenue increased by \$211.8 million, or 21.1%, for the nine months ended September 30, 2021, compared to the same period in 2020, primarily due to the FIH acquisition (\$198.5 million) and increased activity with utility customers in Texas, California, and the Southeast. These amounts were partially offset by lower activity with a utility customer in the Midwest as well as the impact of customer project and material delays.

Gross profit for the three months ended September 30, 2021 decreased by \$4.4 million, or 6.5%, compared to the same period in 2020, primarily due to lower margins from our legacy operations, partially offset by the incremental impact of the FIH acquisition (\$11.4 million). Gross profit as a percentage of revenue decreased to 14.0% during the three months ended September 30, 2021, compared to 16.5% in the same period in 2020, primarily due to customer project and material delays and a decrease in higher margin storm work in 2021, as well as strong performance and favorable margins realized on projects in the Southeast in 2020.

Gross profit for the nine months ended September 30, 2021, increased by \$4.0 million, or 3.1% compared to the same period in 2020. The increase is primarily attributable to the incremental impact of the FIH acquisition (\$32.0 million), partially offset by lower margins from our legacy operations. Gross profit as a percentage of revenue decreased to 11.1% during the nine months ended September 30, 2021, compared to 13.0% in the same period in 2020 primarily due to unfavorable weather conditions, customer project and material delays and a decrease in higher margin storm work in 2021, as well as strong performance and favorable margins realized on projects in the Southeast in 2020. These amounts were partially offset by the favorable margins realized by FIH.

Energy/Renewables Segment

Revenue and gross profit for the Energy/Renewables segment for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,			
	2021		2020	
	(Thousands)	% of Segment Revenue	(Thousands)	% of Segment Revenue
<i>Energy/Renewables Segment</i>				
Revenue	\$ 351,026		\$ 315,115	
Gross profit	35,926	10.2%	27,501	8.7%

	Nine Months Ended September 30,			
	2021		2020	
	(Thousands)	% of Segment Revenue	(Thousands)	% of Segment Revenue
<i>Energy/Renewables Segment</i>				
Revenue	\$ 1,038,900		\$ 895,415	
Gross profit	111,825	10.8%	70,605	7.9%

Revenue increased by \$35.9 million, or 11.4%, for the three months ended September 30, 2021, compared to the same period in 2020, primarily due to increased renewable energy activity (\$67.9 million), partially offset by the substantial completion of an industrial project in California early in the third quarter of 2021.

Revenue increased by \$143.5 million, or 16.0%, for the nine months ended September 30, 2021, compared to the same period in 2020, primarily due to increased renewable energy activity (\$217.7 million), partially offset by the substantial completion of industrial projects in Texas and Louisiana in 2020.

Gross profit for the three months ended September 30, 2021, increased by \$8.4 million, or 30.7%, compared to the same period in 2020, primarily due to higher revenue and margins. Gross profit as a percentage of revenue increased to 10.2% during the three months ended September 30, 2021, compared to 8.7% in the same period in 2020, primarily due to higher costs associated with a liquified natural gas (“LNG”) plant project in the northeast in 2020.

Gross profit for the nine months ended September 30, 2021, increased by \$41.2 million, or 58.4% compared to the same period in 2020, primarily due to higher revenue and margins. Gross profit as a percentage of revenue increased to 10.8% during the nine months ended September 30, 2021, compared to 7.9% in the same period in 2020 primarily due to favorable claims resolution on an industrial plant project in 2021. In addition we experienced higher costs in 2020 associated with an LNG plant project in the northeast, an engineering project, and a Canadian tank farm project.

Pipeline Segment

Revenue and gross profit for the Pipeline segment for the three and nine months ended September 30, 2021 and 2020 were as follows:

	Three Months Ended September 30,			
	2021		2020	
	(Thousands)	% of Segment Revenue	(Thousands)	% of Segment Revenue
Pipeline Segment				
Revenue	\$ 107,565		\$ 214,380	
Gross profit	27,795	25.8%	28,045	13.1%

	Nine Months Ended September 30,			
	2021		2020	
	(Thousands)	% of Segment Revenue	(Thousands)	% of Segment Revenue
Pipeline Segment				
Revenue	\$ 359,197		\$ 695,462	
Gross profit	74,538	20.8%	71,567	10.3%

Revenue decreased by \$106.8 million, or 49.8%, for the three months ended September 30, 2021, compared to the same period in 2020. The decrease is primarily due to the substantial completion of pipeline projects in 2020 (\$127.0 million), partially offset by progress on a pipeline project in Texas that began in the second half of 2020.

Revenue decreased by \$336.3 million, or 48.4%, for the nine months ended September 30, 2021, compared to the same period in 2020. The decrease is primarily due to the substantial completion of pipeline projects in 2020 (\$392.4 million), partially offset by progress on a pipeline project that began in the second half of 2020.

Gross profit for the three months ended September 30, 2021 decreased by \$0.3 million, or 0.9%, compared to the same period in 2020, primarily due to lower revenue, partially offset by higher margins. Gross profit as a percentage of revenue increased to 25.8% during the three months ended September 30, 2021, compared to 13.1% in the same period in 2020, primarily due to the favorable impact from the closeout of multiple pipeline projects in 2021 and higher costs on a Texas pipeline project in 2020, partially offset by strong performance and favorable margins realized on a Texas pipeline project in 2020.

Gross profit for the nine months ended September 30, 2021 increased by \$3.0 million, or 4.2%, compared to the same period in 2020, primarily due to higher margins, partially offset by lower revenue. Gross profit as a percentage of revenue increased to 20.8% during the nine months ended September 30, 2021, compared to 10.3% in the same period in 2020, primarily due to the favorable impact from the closeout of multiple pipeline projects in 2021 and higher costs on pipeline projects in Virginia and Texas in 2020, partially offset by strong performance and favorable margins realized on a Texas pipeline project in 2020.

Geographic area financial information

The majority of our revenue is derived from customers in the United States with approximately 4.4% generated from sources outside of the United States during the nine months ended September 30, 2021, principally in Canada.

Backlog

For companies in the construction industry, backlog can be an indicator of future revenue streams. Different companies define and calculate backlog in different manners. We define backlog as a combination of: (1) anticipated revenue from the uncompleted portions of existing contracts where scope is adequately defined, and therefore we can reasonably estimate total contract value (“Fixed Backlog”), and (2) the estimated revenue on MSA work for the next four quarters (“MSA Backlog”). We do not include certain contracts in the calculation of backlog where scope, and therefore contract value, is not adequately defined.

The two components of backlog, Fixed Backlog and MSA Backlog, are detailed below.

Fixed Backlog

Fixed Backlog by reportable segment as of December 31, 2020 and September 30, 2021 and the changes in Fixed Backlog for the nine months ended September 30, 2021 are as follows (in millions):

Reportable Segment	Beginning Fixed Backlog at December 31, 2020	Net Contract Additions to Fixed Backlog	Revenue Recognized from Fixed Backlog	Ending Fixed Backlog at September 30, 2021	Revenue Recognized from Non-Fixed Backlog Projects	Total Revenue for Nine Months ended September 30, 2021
Utilities	\$ 36.8	\$ 197.8	\$ 172.4	\$ 62.2	\$ 1,042.7	\$ 1,215.1
Energy/Renewables	1,256.5	752.4	902.0	1,106.9	136.9	1,038.9
Pipeline	346.3	74.9	307.8	113.4	51.4	359.2
Total	\$ 1,639.6	\$ 1,025.1	\$ 1,382.2	\$ 1,282.5	\$ 1,231.0	\$ 2,613.2

Revenue recognized from non-Fixed Backlog projects shown above are generated by MSA projects and projects completed under time and material and cost reimbursable plus fee contracts where scope, and therefore contract value, is not adequately defined, or are generated from the sale of construction materials, such as rock or asphalt to outside third parties.

At September 30, 2021, our total Fixed Backlog was \$1.28 billion representing a decrease of \$357.1 million, or 21.8% compared to \$1.64 billion at December 31, 2020.

MSA Backlog

The following table outlines historical MSA revenue for the past seven quarters (in millions):

	Quarterly MSA Revenue	
	2020	2021
First Quarter	\$ 270.4	\$ 338.3
Second Quarter	335.3	413.2
Third Quarter	384.8	466.6
Fourth Quarter	369.9	

MSA Backlog includes anticipated MSA revenue for the next twelve months. We estimate MSA revenue based on historical trends, anticipated seasonal impacts and estimates of customer demand based on information from our customers.

The following table shows our estimated MSA Backlog at September 30, 2021 by reportable segment (in millions):

Reportable Segment:	MSA Backlog at September 30, 2021
Utilities	\$ 1,287.6
Energy/Renewables	114.9
Pipeline	54.2
Total	\$ 1,456.7

Total Backlog

The following table shows total backlog (Fixed Backlog plus MSA Backlog), by reportable segment as of the quarter-end dates shown below (in millions):

Reportable Segment:	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021	September 30, 2021
Utilities	\$ 1,115.7	\$ 1,045.2	\$ 1,388.3	\$ 1,403.6	\$ 1,349.8
Energy/Renewables	1,491.6	1,353.7	1,386.4	1,205.1	1,221.8
Pipeline	366.8	377.7	313.7	261.3	167.6
Total	\$ 2,974.1	\$ 2,776.6	\$ 3,088.4	\$ 2,870.0	\$ 2,739.2

We expect that during the next four quarters, we will recognize as revenue approximately 88% of the total backlog at September 30, 2021, composed of backlog of approximately: 100% of the Utilities segment; 73% of the Energy/Renewables segment; and 100% of the Pipeline segment.

Backlog should not be considered a comprehensive indicator of future revenue, as a percentage of our revenue is derived from projects that are not part of a backlog calculation. The backlog estimates include amounts from estimated MSA contracts, but our customers are not contractually obligated to purchase an amount of services from us under the MSAs. Any of our contracts may be terminated by our customers on relatively short notice. In the event of a project cancellation, we may be reimbursed for certain costs, but typically we have no contractual right to the total revenue reflected in backlog. Projects may remain in backlog for extended periods of time as a result of customer delays, regulatory requirements or project specific issues. Future revenue from certain projects completed under time and material and cost reimbursable plus fee contracts may not be included in our estimated backlog amount.

Liquidity and Capital Resources

Liquidity represents our ability to pay our liabilities when they become due, fund business operations, and meet our contractual obligations and execute our business plan. Our primary sources of liquidity are our cash balances at the beginning of each period and our cash flows from operating activities. If needed, we have availability under our lines of credit to augment liquidity needs. At September 30, 2021, there were no outstanding borrowings under the Revolving Credit Facility, commercial letters of credit outstanding were \$44.5 million, and available borrowing capacity was \$155.5 million.

On January 15, 2021, we entered into the Second Amended and Restated Credit Agreement (the “Amended Credit Agreement”) to increase the Term Loan by \$400.0 million to an aggregate principal amount of \$592.5 million (the “New Term Loan”). The proceeds from the New Term Loan were used to finance the acquisition of FIH.

In March 2021, we entered into an underwriting agreement with Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC and UBS Securities LLC, as representatives of the underwriters, in connection with a public offering, pursuant to which we agreed to issue and sell 4,500,000 shares of common stock, par value \$.0001 per share. The shares were offered and sold at a public offering price of \$35.00 per share. Our net proceeds were approximately \$149.3 million and were used to repay a portion of the borrowings incurred under our Amended Credit Agreement in connection with the acquisition of FIH.

In order to maintain sufficient liquidity, we evaluate our working capital requirements on a regular basis. We may elect to raise additional capital by issuing common stock, convertible notes, term debt or increasing our credit facility as necessary to fund our operations or to fund the acquisition of new businesses.

Our cash and cash equivalents totaled \$199.0 million at September 30, 2021, compared to \$326.7 million at December 31, 2020. We anticipate that our cash and investments on hand, existing borrowing capacity under our credit facilities and our future cash flows from operations will provide sufficient funds to enable us to meet our operating needs, our planned capital expenditures, and settle our commitments and contingencies for at least the next twelve months.

The construction industry is capital intensive, and we expect to continue to make capital expenditures to meet anticipated needs for our services. During the nine months ended September 30, 2021, we spent approximately \$102.1 million for capital expenditures, which included \$91.7 million for construction equipment. Capital expenditures for the remaining three months of 2021 are expected to total between \$10.0 million and \$20.0 million.

Cash Flows

Cash flows during the nine months ended September 30, 2021 and 2020 are summarized as follows (in thousands):

	Nine months ended September 30,	
	2021	2020
Change in cash:		
Net cash provided by operating activities	\$ 14,895	\$ 191,479
Net cash used in investing activities	(665,619)	(36,694)
Net cash provided by (used in) financing activities	522,705	(45,972)
Effect of exchange rate changes	300	(553)
Net change in cash and cash equivalents	<u>\$ (127,719)</u>	<u>\$ 108,260</u>

Operating Activities

The source of our cash flows from operating activities for the nine months ended September 30, 2021 and 2020 were as follows (in thousands):

	Nine months ended September 30,		Change
	2021	2020	
Operating Activities:			
Net income	\$ 86,199	\$ 73,171	\$ 13,028
Depreciation and amortization	78,865	62,558	16,307
Changes in assets and liabilities	(143,880)	56,067	(199,947)
Other	(6,289)	(317)	(5,972)
Net cash provided by operating activities	<u>\$ 14,895</u>	<u>\$ 191,479</u>	<u>\$ (176,584)</u>

Net cash provided by operating activities for the nine months ended September 30, 2021 was \$14.9 million compared to \$191.5 million for the nine months ended September 30, 2020. The change year-over-year was primarily due to the unfavorable impact from the changes in assets and liabilities, partially offset by an increase in net income.

The significant components of the \$143.9 million change in assets and liabilities for the nine months ended September 30, 2021 are summarized as follows:

- Accounts receivable increased by \$69.7 million, primarily due to the timing of collecting from our customers.
- Contract liabilities decreased by \$67.8 million, primarily due to lower deferred revenue;
- Contract assets increased by \$54.3 million, primarily due to the timing of billing our customers;
- Accounts payable increased by \$57.7 million, primarily due to the timing of payments to our vendors and suppliers; and

The significant components of the \$56.1 million change in assets and liabilities for the nine months ended September 30, 2020 are summarized as follows:

- Accounts payable and accrued liabilities increased by \$52.9 million from December 31, 2019, due to the timing of payments to our vendors and suppliers;
- Contract liabilities increased by \$63.7 million from December 31, 2019, primarily due to higher deferred revenue;
- Other long-term liabilities increased by \$34.0 million from December 31, 2019 primarily due to the deferral of FICA tax payments under the CARES Act; and
- Accounts receivable and contract assets increased by \$108.5 million from December 31, 2019, primarily due to increased revenue.

Investing activities

For the nine months ended September 30, 2021, we used \$665.6 million in cash for investing activities compared to \$36.7 million for the nine months ended September 30, 2020.

During the nine months ended September 30, 2021, we used \$607.0 million for acquisitions, primarily for the acquisition of FIH.

During the nine months ended September 30, 2021, we purchased property and equipment for \$102.1 million compared to \$54.4 million during the same period in the prior year. We believe the ownership or long-term leasing of equipment is generally preferable to renting equipment on a project-by-project basis, as this strategy helps to ensure the equipment is available for our projects when needed. In addition, this approach has historically resulted in lower overall equipment costs.

We periodically sell assets, typically to update our fleet. We received proceeds from the sale of assets of \$43.5 million during the nine months ended September 30, 2021, compared to \$17.7 million during the same period in the prior year.

Financing activities

Financing activities provided cash of \$522.7 million for the nine months ended September 30, 2021, which was primarily due to the following:

- Proceeds from the entry into an amended and upsized term loan of \$395.1 million, net of debt issuance costs paid;
- Proceeds from the issuance of common stock of \$178.7 million;
- Proceeds from the issuance of debt secured by our equipment of \$61.7 million;
- Repayment of long-term debt of \$96.5 million; and
- Dividend payments to our stockholders of \$9.3 million.

Financing activities used cash of \$46.0 million for the nine months ended September 30, 2020, which was primarily due to the following:

- Repayment of long-term debt of \$56.3 million;
- Repurchase of common stock of \$11.0 million;
- Dividend payments to our stockholders of \$8.7 million; and
- Proceeds from the issuance of debt secured by our equipment and real estate of \$33.9 million.

Credit Agreements

For a description of our credit agreements, see Note 9 — “*Credit Agreements*” in Item 1, Financial Statements of this Third Quarter 2021 Report.

Common stock

For a discussion of items affecting our common stock, please see Note 13 — “*Stockholders’ Equity*” in Item 1, Financial Statements of this Third Quarter 2021 Report.

Off-balance sheet transactions

We enter into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected on our balance sheet. We have no off-balance sheet financing arrangement with VIEs. The following represents transactions, obligations or relationships that could be considered material off-balance sheet arrangements.

- At September 30, 2021, we had letters of credit outstanding of \$44.9 million under the terms of our credit agreements. These letters of credit are used by our insurance carriers to ensure reimbursement for amounts that they are disbursing on our behalf, such as beneficiaries under our self-funded insurance program. In addition, from time to time, certain customers require us to post a letter of credit to ensure payments to our subcontractors or guarantee performance under our contracts. Letters of credit reduce our borrowing availability under our Credit Agreement and Canadian Credit Facility. If these letters of credit were drawn on by the beneficiary, we would be required to reimburse the issuer of the letter of credit, and we may be required to record a charge to earnings for the reimbursement. As of the date of this Third Quarter 2021 Report, we do not believe that it is likely that any material claims will be made under a letter of credit;
- In the ordinary course of our business, we may be required by our customers to post surety bid or completion bonds in connection with services that we provide. At September 30, 2021 we had bid and completion bonds issued and outstanding totaling approximately \$2.9 billion. The remaining performance obligation on those bonded projects totaled approximately \$704.5 million at September 30, 2021. As of the date of this Third Quarter 2021 Report, we do not anticipate that we would have to fund material claims under our surety arrangements;
- Certain of our subsidiaries are parties to collective bargaining agreements with unions. In most instances, these agreements require that we contribute to multi-employer pension and health and welfare plans. For many plans, the contributions are determined annually and required future contributions cannot be determined since contribution rates depend on the total number of union employees and actuarial calculations based on the demographics of all participants. The Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Multi-Employer Pension Amendments Act of 1980, subjects employers to potential liabilities in the event of an employer’s complete or partial withdrawal of an underfunded multi-employer pension plan. The Pension Protection Act of 2006 added new funding rules for multi-employer plans that are classified as “endangered”, “seriously endangered”, or “critical”. We do not currently anticipate withdrawal from any multi-employer pension plans. Withdrawal liabilities or requirements for increased future contributions could negatively impact our results of operations and liquidity;
- We enter into employment agreements with certain employees which provide for compensation and benefits under certain circumstances and which may contain a change of control clause. We may be obligated to make payments under the terms of these agreements; and
- From time to time, we make other guarantees, such as guaranteeing the obligations of our subsidiaries.

Effects of Inflation and Changing Prices

Our operations are affected by increases in prices, whether caused by inflation or other economic factors. We attempt to recover anticipated increases in the cost of labor, equipment, fuel and materials through price escalation provisions in certain major contracts or by considering the estimated effect of such increases when bidding or pricing new

work or by entering into back-to-back contracts with suppliers and subcontractors. To date, our operations have not been materially impacted by the effects of increases in prices.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the ordinary course of business, we are exposed to risks related to market conditions. These risks primarily include fluctuations in foreign currency exchange rates, interest rates and commodity prices. We may seek to manage these risks through the use of financial derivative instruments. These instruments may include foreign currency exchange contracts and interest rate swaps.

Interest rate risk. Our Revolving Credit Facility and term loan bear interest at a variable rate which exposes us to interest rate risk. From time to time, we may use certain derivative instruments to hedge our exposure to variable interest rates. As of September 30, 2021, \$137.2 million of our variable rate debt outstanding was economically hedged. Based on our variable rate debt outstanding as of September 30, 2021, a 1.0% increase or decrease in interest rates would change annual interest expense by approximately \$3.9 million.

We do not execute transactions or use financial derivative instruments for trading or speculative purposes. We generally enter into transactions with counter-parties that are financial institutions as a means to limit significant exposure with any one party.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of September 30, 2021, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our “disclosure controls and procedures”, as such term is defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Based on this evaluation, our CEO and CFO concluded that, at September 30, 2021, the disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their stated objectives.

Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting practices or processes that occurred during the quarter ended September 30, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

The information required for this item is provided in Note 15 — “*Commitments and Contingencies*”, included in the unaudited notes to our condensed consolidated financial statements included under Part I of this Form 10-Q, which is incorporated herein by reference.

Item 6. Exhibits

The following exhibits are filed as part of this Quarterly Report on Form 10-Q.

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated December 14, 2020, among Primoris Services Corporation, Future Infrastructure Holdings, LLC, Primoris Merger Sub, LLC and Tower Arch Capital, L.P. (incorporated by reference to Exhibit 2.1 to Primoris' Current Report on Form 8-K filed on December 15, 2020)
2.2	Amendment No.1 to Agreement and Plan of Merger, dated as of January 11, 2021 (incorporated by reference to Exhibit 2.2 to Primoris' Current Report on Form 8-K filed on January 15, 2021)
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Registrant's Chief Executive Officer (*)
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Registrant's Chief Financial Officer (*)
32.1	Section 1350 Certification by the Registrant's Chief Executive Officer (**)
32.2	Section 1350 Certification by the Registrant's Chief Financial Officer (**)
101 INS	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document (*)
101 SCH	Inline XBRL Taxonomy Extension Schema Document (*)
101 CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (*)
101 LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (*)
101 PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (*)
101 DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (*)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(*) Filed herewith.

(**) Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRIMORIS SERVICES CORPORATION

Date: November 8, 2021

/s/ Kenneth M. Dodgen

Kenneth M. Dodgen

Executive Vice President, Chief Financial Officer

(Principal Financial Officer)