Primoris Services CORP
Form 10-K
March 24, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to
Commission file number: 0001-34145

Primoris Services Corporation

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-4743916** (I.R.S. Employer Identification No.)
26000 Commercentre Drive **Lake Forest, California** (Address of principal executive offices)	**92630** (Zip Code)

(949) 598-9242
(Registrant's telephone number, including area code)

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

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

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

None

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

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

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III in this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company ý

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was approximately $46.8 million based upon the average bid and asked price of such common equity as of June 30, 2008. On March 3, 2009, there were 29,977,339 shares of common stock, par value $0.0001, outstanding. For purposes of this Annual Report on Form 10-K, in addition to those stockholders which fall within the definition of "affiliates" under Rule 405 of the Securities Act of 1933, holders of ten percent or more of the Registrant's common stock are deemed to be affiliates.

Documents Incorporated by Reference

Portions of the Proxy Statement to be delivered to stockholders in connection with the Registrant's 2009 Annual Meeting of Stockholders to be filed on or before 120 days after the end of the Registrant's fiscal year end are incorporated by reference into Part III of this Annual Report on Form 10-K. With the exception of those portions that are specifically incorporated in this Annual Report on Form 10-K, such Proxy Statement shall not be deemed filed as part of this Annual Report on Form 10-K or incorporated by reference herein.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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 involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss many of these risks in detail in "Item 1A. Risk Factors". Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Annual Report on Form 10-K. You should read this Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. 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.

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PART I

ITEM 1. BUSINESS

Business Overview

Primoris Services Corporation, a Delaware corporation formed in October 2006, is a holding company of various subsidiaries which form a diversified engineering and construction company providing a wide range of construction, fabrication, maintenance, replacement and engineering services to major public utilities, petrochemical companies, energy companies, municipalities and other customers. Since 1946, our primary subsidiary, ARB, Inc. ("ARB") and its predecessor, has been engaged in the construction industry.

Primoris installs, replaces, repairs and rehabilitates natural gas, refined product, water and wastewater pipeline systems, and also constructs mechanical facilities, and other structures, including power plants, petrochemical facilities, refineries and parking structures. In addition, we provide maintenance services, including inspection, overhaul and emergency repair services, for cogeneration plants, refineries and similar mechanical facilities.

ARB is engaged primarily in the infrastructure, underground pipeline, directional drilling, and other structure construction and maintenance services. Through our subsidiary Onquest, Inc., we provide engineering design services for fired heaters and furnaces primarily used in refinery applications. Through our subsidiary Cardinal Contractors, Inc., we construct water and wastewater facilities in the Southeast United States. A substantial portion of our activities are performed in the Western United States, primarily in California. In addition, we have strategic presences in Florida, Texas, Latin America and Canada.

Company History and Merger

On February 19, 2008, Rhapsody Acquisition Corp. ("Rhapsody") entered into an Agreement and Plan of Merger ("Merger Agreement") with Primoris Corporation, a privately held Nevada corporation ("Former Primoris"), and certain stockholders of Former Primoris. On July 31, 2008, with the consent of both the Rhapsody stockholders and the stockholders of Former Primoris, the merger was completed. While Rhapsody was the surviving legal entity in the merger, Former Primoris was treated as the acquiring entity for accounting purposes. From October 2006 until the merger, Rhapsody's common stock, warrants to purchase common stock ("Warrants") and Units (each unit consisting of one share of common stock and one Warrant) traded on the OTC Bulletin Board under the symbols "RPSD", "RPSDW" and "RPSDU", respectively. In connection with the merger, Rhapsody changed its name to "Primoris Services Corporation", whose common stock, Warrants and Units have traded since August 4, 2008 on the NASDAQ Global Market under the symbols "PRIM", "PRIMW" and "PRIMU", respectively.

Unless specifically noted otherwise, as used throughout this Annual Report on Form 10-K, "Primoris", the "Company" or "we," "our," or "us" refers to the business, operations and financial results of Former Primoris prior to, and Primoris Services Corporation subsequent to, the closing of the merger on July 31, 2008, between us and Former Primoris as the context requires. "Rhapsody" refers to our operations or financial results prior to the closing of the merger.

As part of the merger, holders of all of the issued and outstanding shares of common stock of Former Primoris and two foreign managers of Former Primoris (collectively, the "Former Primoris Holders") became entitled to receive an aggregate of (i) 24,094,800 shares of our common stock at the closing of the merger plus (ii) the right to receive 2,500,025 additional shares (allowing for rounding) of our common stock for each of the fiscal years ending December 31, 2008 and 2009 for a total of 5,000,050 additional shares, provided that we achieve specified EBITDA (as defined in the Merger Agreement) milestones. Of the 24,094,800 shares of common stock issued at the closing of the merger,

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1,807,110 were required to be placed into escrow to provide funds to satisfy Rhapsody's rights to indemnification under the Merger Agreement. As of December 31, 2008, the Company achieved the specified EBITDA milestone for 2008 and consequently, 2,500,025 shares are to be issued to the Former Primoris stockholders in March 2009.

At the time of the merger in July 2008, Brian Pratt, the Chief Executive Officer and President of the Company, beneficially held more than 50% of the voting power of the Company, through his ownership of shares of our common stock and by the delivery of revocable proxies to Mr. Pratt from certain of our stockholders. As a result, the Company is considered a "controlled company" for purposes of the NASDAQ listing requirements (a corporation which more than 50% of the voting power is held by an individual, a group or another company). Therefore, the Company is not subject to the NASDAQ listing requirements that would otherwise require the board of directors to have a majority of independent directors and the compensation and nominating committees to be comprised entirely of independent directors. Accordingly, the Company's stockholders will not have the same protections afforded to stockholders of companies that are subject to all of such NASDAQ corporate governance requirements, and the ability of independent directors to influence the business policies and affairs will likely be substantially reduced. However, as of March 17, 2009 the Board of Directors determined that five of the eight directors were independent under the applicable NASDAQ listing requirements.

The merger was accounted for as a reverse acquisition in accordance with accounting principles generally accepted in the United States ("GAAP"). Under this method of accounting, Rhapsody was treated as the "acquired" company for financial reporting purposes. This determination was primarily based on the operations and management of Former Primoris comprising the ongoing operations and management of the Company after the merger. In accordance with guidance applicable to these circumstances, the merger was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger was treated as the equivalent of Former Primoris issuing stock for Rhapsody's net assets, accompanied by a recapitalization. Our pre-merger net assets are stated at historical cost, with no goodwill or other intangible assets recorded as part of the merger transaction. Operations prior to the merger are those of Former Primoris.

Services

We provide services in two business segments, Construction Services and Engineering. Construction Services represented approximately 84.7% of revenues for 2008 and 85.9% in 2007. Engineering represented approximately 15.3% of revenues in 2008 and 14.1% in 2007. The segments include services as follows:

Construction Services:

The Construction Services segment specializes in a range of services that include designing, building/installing, replacing, repairing/rehabilitating and providing management services for construction related projects. Our services include:

- Providing installation of underground pipeline, cable and conduits for entities in the petroleum, petrochemical and water industries;
- Providing installation and maintenance of industrial facilities for entities in the petroleum, petrochemical and water industries; and
- Providing installation of complex commercial and industrial cast-in-place structures.

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Engineering:

The Engineering segment specializes in designing, supplying and installing high-performance furnaces, heaters, burner management systems, and related combustion and process technologies for clients in the oil refining, petrochemical, and power generation industries. It also furnishes turnkey project management with the technical expertise and the ability to deliver custom engineering solutions worldwide.

Strategy

Our strategy emphasizes the following key elements:

Diversification through Controlled Expansion. We continue to emphasize both the expansion of services beyond our traditional focus and the addition of new customers. We intend to continue to evaluate acquisitions that offer growth opportunities and the ability to leverage our resources as a leading service provider to the oil and gas, power, refining and water industries. The current strategy also includes selective expansion to new geographic regions.

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

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

Stable Work Force. We maintain a stable work force of skilled, experienced laborers, many of whom are cross-trained in projects such as pipeline and facility construction, refinery maintenance, and piping systems.

Selective Bidding. We selectively bid on projects that we believe offer an opportunity to meet our profitability objectives, or that offer the opportunity to enter promising new markets. In addition, we review our bidding opportunities to attempt to minimize concentration of work with any one customer, in any one industry, or in stressed labor markets.

Focus on Private Sector Work. We focus on private sector work, which we believe is generally more profitable than public sector work and which allows for the development of long-term customer relationships. Through the twelve months ended December 31, 2008, approximately $454 million or 74.6% of our revenue was derived from private sector projects. In 2007, revenue of approximately $346 million, or 75.3% of our revenue, was derived from private sector projects.

Backlog

See Item 7. "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" of this Annual Report on Form 10-K for information relating to our backlog.

Customers

We have longstanding relationships with major utility, refining, petrochemical, power and engineering companies. We have completed major underground and industrial projects for a number of large natural gas transmission and petrochemical companies in the Western United States, as well as significant projects through our engineering subsidiary. A large number of contracts are entered into each year, many of which are completed within three months from commencement, as well as other

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larger projects that may take 12 to 24 months to complete. Although we have not been dependent upon any one customer, a small number of customers may constitute a substantial portion of our total revenue in any given period.

Our customers include many of the leading energy and utility companies in the United States, including, among others, Duke Energy, Conoco Phillips, British Petroleum, Pacific Gas & Electric, Sempra Energy, Williams, Valero, Chevron, Calpine, Kinder Morgan and Praxair.

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

Description of customer's business	2008	2007	2006
Public gas and electric utility	(*)	(*)	10.8%
Public gas and electric utility	7.4%	6.0%	7.9%
Engineering contractor	9.7%		
Engineering contractor	11.1%	10.2%	
Totals	28.2%	16.2%	18.7%

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

For the year ended December 31, 2008, approximately 58.6% of total revenues were generated from ten customers of the Company. Additionally, approximately 6.1% of the Company's accounts receivable were due from one customer. For the year ended December 31, 2008, the Company earned approximately 9.7% of its total revenue from this customer.

Ongoing Projects

The following is a summary of our selected ongoing construction projects at December 31, 2008:

Segment	Project	Location	Contract Amount (Millions)	Estimated Completion Date	Remaining Backlog at December 31, 2008 (Millions)
Construction Services	138 kV Transmission Line	Las Vegas, NV	$ 15	03/2010	$ 15
Construction Services	230 kV Transmission Line	Las Vegas, NV	$ 9	05/2009	$ 7
Construction Services	Imperial Valley Loop Line	El Centro, CA	$ 19	05/2009	$ 15
Construction Services	260M std cu ft Hydrogen Reformer Plant	Richmond, CA	$ 109	10/2009	$ 88
Construction Services	Delevan Compressor Power Retrofit	Willows, CA	$ 54	04/2011	$ 40
Engineering	Coker Heater	Detroit, MI	$ 15	06/2009	$ 9
Engineering	Waste Heat Rec.	Thailand	$ 27	06/2009	$ 14
Engineering	Crude Heater	St. Charles, LA	$ 10	06/2009	$ 5
Engineering	MSAT Reboiler	Robinson, IL	$ 9	05/2009	$ 9
				Various	$ 173
				Total	$ 375

Competition

We face substantial competition on large construction projects from regional and national contractors. Competitors on small construction projects range from a few large construction companies to a variety of smaller contractors. We compete with many local and regional firms for construction services and with a number of large firms on select projects. Each business segment faces varied competition depending on the type of project and services offered.

We believe that our primary factors of competition are price, reputation for quality, delivery and safety, relevant experience, availability of skilled labor, machinery and equipment, financial strength, knowledge of local markets and conditions, and estimating abilities. We believe that we compete favorably in all of the foregoing factors.

Geographic Areas Financial Information

The following table sets forth our revenues from external customers attributable to our operations in the countries identified below for the years ended December 31, 2008, 2007 and 2006, and the total assets located in those countries for the years ended December 31, 2008 and 2007. Our revenue from operations in the United States and Ecuador are related to projects primarily in those countries. Our revenue from operations in Canada are primarily derived from our office in Calgary, Canada, but may relate to specific projects in other countries.

	Year Ended December 31,						Total Assets at December 31,	
	2008		2007		2006		2008	2007
Country	Revenue (Thousands)	%	Revenue (Thousands)	%	Revenue (Thousands)	%	(Thousands)	(Thousands)
United States	$ 577,090	94.8	$ 521,663	95.3	$ 411,095	93.6	$ 231,642	$ 203,047
Canada	20,732	3.4	20,961	3.8	18,911	4.3	12,514	14,818
Ecuador	11,250	1.8	5,042	0.9	9,399	2.1	8,056	3,108
TOTAL	$ 609,072	100.0	$ 547,666	100.0	$ 439,405	100.0	$ 252,212	$ 220,973

Risks Attendant to Foreign Operations

International operations are subject to foreign economic and political uncertainties. Unexpected and adverse changes in the foreign countries in which we operate could result in project disruptions, increased costs and potential losses. Our business is subject to fluctuations in demand and to changing domestic and international economic and political conditions which are beyond our control. In 2008, as set forth in the table above, approximately 5.2% of our revenue was attributable to external customers in foreign countries. The current expectation is that a similar portion of revenue will continue to come from international projects for the foreseeable future.

The lack of a well-developed legal system in some foreign countries may also make it difficult to enforce contractual rights. There are significant risks due to civil strife, acts of war, terrorism and insurrection. The level of exposure to these risks will vary with respect to each project, depending on the particular stage of each such project. For example, the risk exposure with respect to a project in an early development stage will generally be less than the risk exposure with respect to a project in the middle of construction. To the extent that our international business is affected by unexpected and adverse foreign economic and political conditions, we may experience project disruptions and losses, which can significantly reduce our overall revenue and profits. We are able to mitigate significant portions of these risks by focusing on U.S. and European based clients (although the projects may be located elsewhere) and U.S. dollar based or hedged contracts.

Contract Provisions and Subcontracting

A substantial portion of our revenue is derived from contracts that are "fixed price" or "fixed unit price" contracts. Under a fixed price contract, we undertake to provide labor, equipment and services required by a project for a competitively bid or negotiated fixed price. The materials required under a fixed price contract, such as pipe, turbines, boilers and vessels are often supplied by the party retaining us. Under a fixed unit price contract, we are committed to providing materials or services required by a project at fixed unit prices. While the fixed unit price contract shifts the risk of estimating the quantity of units required for a particular project to the party retaining us, any increase in our unit cost over the unit price bid, whether due to inflation, inefficiency, faulty estimates or other factors, is borne by us.

Construction contracts are primarily obtained through competitive bidding or through negotiations with long-standing customers. We are typically invited to bid on projects undertaken by recurring customers who maintain pre-qualified contractor lists. Contractors are selected for the pre-approved contractor lists by virtue of their prior performance for such customers, as well as their experience, reputation for quality, safety record, financial strength and bonding capacity.

In evaluating bid opportunities, we consider such factors as the customer, the geographic location of the work, the availability of labor, our competitive advantage or disadvantage relative to other likely contractors, our current and projected workload, the likelihood of additional work, and the project's cost and profitability estimates. We use computer-based estimating systems and our estimating staff has significant experience in the construction industry. The project estimates form the basis of a project budget against which performance is tracked through a project cost system, enabling management to monitor a projects progress. Project costs are accumulated and monitored weekly against billings and payments to assure proper control of cash flow on the project.

All government contracts and many other contracts provide for termination of the contract for the convenience of the party. In addition, many contracts are subject to certain completion schedule requirements with liquidated damages in the event schedules are not met. We have not been materially adversely affected by these provisions in the past.

We act as prime contractor on a majority of the construction projects we undertake. In the construction industry, the prime contractor is normally responsible for the performance of the entire contract, including subcontract work. Thus, we are subject to increased costs associated with the failure of one or more subcontractors to perform as anticipated. In our capacity as prime contractor and, when acting as a subcontractor, we perform most of the work on our projects with our own resources and subcontract specialized activities such as blasting, hazardous waste removal and electrical work.

Our gas distribution services are typically provided pursuant to renewable, one-year contracts, on a "cost-plus" basis. Fees on cost-plus contracts are negotiated and are earned based on the project cost expensed. Historically, substantially all of the gas distribution customers have renewed their annual maintenance contracts. Facilities maintenance services, such as regularly scheduled and emergency repair work, are provided on an ongoing basis.

Insurance and Bonding

We maintain general liability and excess liability insurance, covering our construction equipment, and workers' compensation insurance, in amounts consistent with industry practices. In the State of California, we self-insure our workers' compensation claims in an amount of up to $250,000 per occurrence, and we maintain insurance covering larger claims. Management believes our insurance programs are adequate.

We maintain a diligent safety and risk management program that has resulted in a favorable loss experience factor. Through our safety director and the employment of a large staff of regional and site specific safety managers, we have been able to effectively assess and control potential losses and liabilities in both the pre-construction and performance phases of our projects. Though we strongly focus on safety in the workplace, we cannot assure that we can prevent or reduce all injuries or claims in our workplace.

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In connection with our business, we generally are required to provide various types of surety bonds guaranteeing our performance under certain public and private sector contracts. Our ability to obtain surety bonds depends upon our capitalization, working capital, backlog, past performance, management expertise and other factors. Surety companies consider such factors in light of the amount of surety bonds then outstanding for us and their current underwriting standards, which may change from time to time.

Employees

We believe our employees are our most valuable resource. Our ability to maintain sufficient continuous work for approximately 1,400 hourly employees instills in such employees loyalty to and understanding of our policies and contributes to our strong production, safety and quality record.

As of December 31, 2008, we employed approximately 352 salaried employees and approximately 1,299 hourly employees. The total number of hourly personnel employed is subject to the volume of construction in progress. During 2008, the number of hourly employees ranged from approximately 1,300 to 1,700.

The following is a summary of employees by function and geography at December 31, 2008:

	CA	FL	TX	Other US	Canada	Ecuador	Total
Salaried	241	18	26	13	32	22	352
Hourly	874	109	49	6	3	258	1,299
Total	1,115	127	75	19	35	280	1,651

Several of our subsidiaries have operations that are unionized through the negotiation and execution of collective bargaining agreements. These collective bargaining agreements have varying terms and are subject to renegotiation upon expiration. We have experienced no recent work stoppages and believe our employee and union relations are good.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Operations

Our financial and operating results may vary significantly from quarter-to-quarter, which may adversely affect the value of our common stock.

Our annual and quarterly results may be adversely affected by:

- Changes in our mix of customers, projects, contracts and business;
- Regional and/or general economic conditions;
- Variations and changes in the margins of projects performed during any particular quarter;
- Increases in the costs to perform services caused by changing weather conditions;
- The termination 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 to execute specific projects;

Changes in bonding requirements and bonding availability applicable to existing and new agreements;

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Costs we incur to support growth internally or through acquisitions or otherwise;

The timing and volume of work under contract; and

Losses experienced in our operations not otherwise covered by insurance.

Accordingly, our operating results in any particular quarter may not be indicative of the results that you may expect for any other quarter or for the entire year. Such quarterly fluctuations in our financial and operating results may affect the value of our common stock.

Our business is labor intensive. We also depend on key personnel and we may not be able to operate and grow our business effectively if we lose the services of any of our key personnel or are unable to attract qualified and skilled personnel in the future. This could lead to a decrease in our overall competitiveness, resulting in an adverse effect on our business, operating results, financial condition and value of our stock.

We are dependent upon the efforts of our key personnel and our ability to retain them and hire other qualified employees. In particular, we are dependent upon the management and leadership of Brian Pratt, who is our Chief Executive Officer, as well as other members of senior management listed in Part III Item 10 "*Directors, Executive Officers and Corporate Governance*" of this Annual Report on Form 10-K. The loss of any of the executive officers or other key personnel could affect our ability to run our business effectively.

Competition for senior management personnel is intense and we may not be able to retain our personnel even though we have entered into employment agreements with certain of them. The loss of any key personnel requires the remaining key personnel to divert immediate and substantial attention to seeking a replacement. An inability to find a suitable replacement for any departing executive officer on a timely basis could adversely affect our ability to operate and grow our business.

Our ability to maintain our productivity and profitability may also be limited by our ability to employ, train and retain skilled personnel necessary to meet our requirements. We may not be able to maintain an adequate skilled labor force necessary to operate efficiently and to support our growth strategy. We have from time-to time experienced shortages of certain types of qualified personnel. For example, there is a shortage of engineers, project managers, field supervisors, and other skilled workers capable of working on and supervising the construction of underground and industrial facilities, as well as providing engineering services. The supply of experienced engineers, project managers, field supervisors and other skilled workers may not be sufficient to meet current or expected demand. The commencement of new, large-scale infrastructure projects or increased demand for workers available to us, could affect our business, even if we are not awarded such projects. Labor shortages or increased labor costs could impair our ability to maintain our business or grow our revenues. If we are unable to hire employees with the requisite skills, we may also be forced to incur significant training expenses. The occurrence of any of the foregoing could have an adverse effect on our business, operating results, financial condition and value of our stock.

We may be unsuccessful at generating internal growth, which may affect our ability to expand our operations or grow our business, which may cause an adverse effect on our financial condition, results of operations and cash flows.

Our ability to generate internal growth may be affected by, among other factors, our ability to:

Attract new customers;

Increase the number of projects performed for existing customers;

Hire and retain qualified personnel;

Successfully bid for new projects; and

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Adapt the range of services we offer to address our customers' evolving construction needs.

In addition, our customers may reduce the number or size of projects available to us due to their inability to obtain capital. Many of the factors affecting our ability to generate internal growth may be beyond our control, and we cannot be certain that our strategies will be successful or that we will be able to generate cash flow sufficient to fund our operations and to support internal growth. If we are unsuccessful, we may not be able to achieve internal growth, expand our operations or grow our business and the failure to do so could have an adverse effect on our financial condition, results of operations and cash flow.

Demand for our services may decrease during an economic recession, and such lack of demand may adversely affect our business.

The engineering and construction industries historically have experienced cyclical fluctuations in financial results due to economic recessions, downturns in business cycles of our customers, material shortages, price increases by subcontractors, interest rate fluctuations and other economic factors beyond our control. If the general level of economic activity deteriorates, our customers may delay or cancel upgrades, expansions, and/or maintenance and repairs to their systems. Many factors, including the financial condition of the industry, could adversely affect our customers and their willingness to fund capital expenditures in the future.

We expect that the difficult credit conditions and the current downturn in the United States gross domestic product will cause some of our customers to delay or postpone construction projects. Forecasts are predicting 10% to 20% potential declines in construction activity in the United States during 2009.

We are also dependent on the amount of work our customers outsource. In a slower economy, our customers may decide to outsource less infrastructure services, resulting in a lower demand for our services. In addition, consolidation, competition or capital constraints in the industries we serve may result in reduced spending by, or the loss of, one or more of our customers.

We derive a significant portion of our revenues from a few customers, and the loss of one or more of these customers could have significant effects on our revenues, resulting in adverse effects on our financial condition, results of operations and cash flows.

Our customer base is highly concentrated, with our top ten customers accounting for 58.6% of our revenue in 2008, 45.1% of our revenue in 2007 and 42.2% in 2006. Our largest customer in 2008 was a multibillion-dollar U.S. based engineering and construction firm, which accounted for 11.1% of our revenue. This customer was also our largest customer in 2007, and accounted for 10.2% of our total revenue for the period. Our revenue could significantly decline if we lose one or more of our significant customers. In addition, revenues under our contracts with significant customers may vary from period-to-period depending on the timing and volume of work which such customers order in a given period and as a result of competition from the in-house service organizations of several of our customers. Reduced demand for our services or a loss of a significant customer could have an adverse effect on our financial condition, results of operations and cash flows.

Our actual cost may be greater than expected in performing our fixed-price and unit-price contracts, causing us to realize significantly lower profits on our projects, which would have an adverse effect on our financial condition, results of operations and cash flows.

We currently generate, and expect to continue to generate, a portion of our revenue and profits under fixed-price and unit-price contracts. The portion of revenue generated from fixed-price and unit-price contracts for 2008, 2007 and 2006 was 66%, 64% and 79%, respectively. The portion of gross profit generated from fixed-price and unit-price contracts for 2008, 2007 and 2006 was 72%, 51% and

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56%, respectively. We must estimate the costs of completing a particular project to bid these types of contracts. The actual cost of labor and materials, however, may vary from the costs we originally estimated and we may not be successful in recouping additional costs from our customers. These variations, along with other risks inherent in performing fixed-price and unit-price contracts, may cause gross profits for a project to differ from those we originally estimated and could result in reduced profitability or losses on projects due to changes in a variety of factors such as:

- Failure to properly estimate costs of engineering, materials, equipment or labor;
- Unanticipated technical problems with the structures, materials or services being supplied by us, which may require that we spend our own money to remedy the problem;
- Project modifications creating unanticipated costs;
- Changes in the costs of equipment, materials, labor or subcontractors;
- Our suppliers' or subcontractors' failure to perform;
- Difficulties by our customers to obtain required governmental permits or approvals;
- Changes in local laws and regulations;
- Delays caused by local weather conditions; and
- Exacerbation of any one or more of these factors as projects grow in size and complexity.

Depending upon the size of a particular project, variations from the estimated contracts costs could have an adverse effect on our financial condition, results of operations and cash flows.

We may lose business to competitors through the competitive bidding processes, which loss of business could have an adverse effect on our financial condition, results of operations and cash flows.

We are engaged in highly competitive businesses in which customer contracts are often awarded through bidding processes based on price and the acceptance of certain risks. We compete with other general and specialty contractors, both foreign and domestic, including large international contractors and small local contractors. The strong competition in our markets requires maintaining skilled personnel, investing in technology and also puts pressure on profit margins. Because of this, we could be prevented from obtaining contracts for which we have bid due to price, greater perceived financial strength and resources of our competitors and/or perceived technology advantages.

We may pay our suppliers and subcontractors before receiving or ever receiving payment from our customers for the related services, which may adversely affect our financial condition, results of operations and cash flows.

We use subcontractors and material suppliers for portions of certain work, and our customers pay us for those related services. If we pay our suppliers and subcontractors for materials purchased and work performed for customers who fail to pay, or such customers delay in paying us for the related work or materials, we could experience a material adverse effect on our financial condition, results of operations and cash flows.

Our unionized workforce may strike or commence work stoppages, which could adversely affect our operations.

As of December 31, 2008, approximately 67% of our hourly employees, primarily consisting of field laborers, were covered by collective bargaining agreements. Although the majority of these agreements prohibit strikes and work stoppages, we cannot be certain that strikes or work stoppages will not occur in the future. Strikes or work stoppages would adversely impact our relationships with

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our customers and could have an adverse effect on our financial condition, results of operations and cash flow.

Our business growth could outpace the capability of our internal infrastructure and may prohibit us from expanding our operations or execute our business plan, which failures may adversely affect the value of our common stock.

Our internal infrastructure may not be adequate to support our operations as they expand. To the extent that we are unable to buy or build equipment necessary for a project, either due to a lack of available funding or equipment shortages in the marketplace, we may be forced to rent equipment on a short-term basis or to find alternative ways to perform the work without the benefit of equipment ideally suited for the job, which could increase the costs of completing the project. We often bid for work knowing that we will have to rent equipment on a short-term basis and we include our assumptions of market equipment rental rates into our bid. If market rates for rental equipment increase between the time of bid submission and project execution, our margins for the project may be reduced. In addition, our equipment requires continuous maintenance, which we generally provide through our own repair facilities. If we are unable to continue to maintain the equipment in our fleet, we may be forced to obtain additional third-party repair services at a higher cost or be unable to bid on contracts.

A significant portion of our business depends on our ability to provide surety bonds and we may be unable to compete for or work on certain projects if we are not able to obtain the necessary surety bonds, which failure to capture or compete for such work could result in an adverse effect on our financial condition, results of operations and cash flows.

Our contracts frequently require that we provide to our customers payment and performance bonds. Furthermore, under standard terms in the surety market, sureties issue or continue bonds on a project-by-project basis and can decline to issue bonds at any time or require the posting of additional collateral as a condition to issuing or renewing any bonds.

Current or future market conditions, as well as changes in our surety's assessment of our operating and financial risk, could cause our surety providers to decline to issue or renew, or substantially reduce the amount of bonds for our work and could increase our bonding costs. These actions could be taken on short notice. If our surety providers were to limit or eliminate our access to bonding, our alternatives would include seeking bonding capacity from other sureties, finding more business that does not require bonds and posting other forms of collateral for project performance, such as letters of credit or cash. We may be unable to secure these alternatives in a timely manner, on acceptable terms, or at all. Accordingly, if we were to experience an interruption or reduction in the availability of bonding capacity, we may be unable to compete for or work on certain projects and such interruption or reduction could have an adverse effect on our financial condition, results of operations and cash flows.

Our bonding requirements may limit our ability to incur indebtedness, which would limit our ability to refinance our existing credit facilities or to execute our business plan, and potentially result in an adverse effect on our business.

Our ability to obtain surety bonds depends upon various factors including our capitalization, working capital and amount of our indebtedness. In order to help ensure that we can obtain required bonds, we may be limited in our ability to incur additional indebtedness that may be needed to refinance our existing credit facilities upon maturity and to execute our business plan. Our inability to incur additional indebtedness could have an adverse effect on our business, operating results and financial condition.

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Our business may be affected by difficult work sites and environments, which may adversely affect our ability to procure materials and labor, which may adversely affect our overall business.

We perform our work under a variety of conditions, including, but not limited to, difficult and hard to reach terrain, difficult site conditions and busy urban centers where delivery of materials and availability of labor may be impacted. Performing work under these conditions can slow our progress, potentially causing us to incur contractual liability to our customers. These difficult conditions may also cause us to incur additional, unanticipated costs that we might not be able to pass on to our customers.

Inability to perform our obligations under Engineer, Procure and Construct (EPC) contracts may lead to higher costs, which would adversely affect our business.

EPC (Engineer, Procure and Construct) contracts require us to perform a range of services for our customers, some of which we routinely subcontract to other parties. The portion of revenue generated from EPC contracts for 2008, 2007 and 2006 was 8%, 9% and 9%, respectively. The portion of gross profit generated from EPC contracts for 2008, 2007 and 2006 was 3%, 0% and 3%, respectively. We believe that these types of contracts will become increasingly prevalent in our industry. In most instances, these contracts require completion of a project by a specific date, achievement of certain performance standards or performance of our services at certain standards of quality. If we subsequently fail to meet such dates or standards, we may be held responsible for costs resulting from such failure. Our inability to obtain the necessary material and equipment to meet a project schedule or the installation of defective material or equipment could have an adverse effect on our financial condition, results of operations and cash flows.

We require subcontractors to assist us in providing certain services and we may be unable to retain the necessary subcontractors to complete certain projects resulting in an adverse effect against our business.

We use subcontractors to perform portions of our contracts and to manage workflow, particularly for design, engineering, procurement and some foundation work. We are not dependent on any single subcontractor. However, general market conditions may limit the availability of subcontractors on which we rely to perform portions of our contracts causing delays and increases in our costs, which results could have an adverse effect on our financial condition, results of operations and cash flows.

Backlog may not be realized or may not result in revenues or profits, which failure in realizing revenues or profits could result in an adverse effect on our financial condition, results of operations and cash flows.

Backlog is difficult to determine accurately and different companies within our industry may define backlog differently. We refer to "backlog" as our estimated revenue on uncompleted contracts, including the amount of revenue on contracts on which work has not begun, minus the revenue we have recognized under such contracts. We calculate backlog differently for different types of contracts. For our fixed price contracts, we include the full remaining portion of the contract in our calculation of backlog. For our unit-price, time-and-equipment, time-and-materials and cost-plus contracts, we do not include any revenue in the calculation of backlog, regardless of the duration of the contract. In addition, we work with some of our customers under master service agreements ("MSAs"). We do not include any projected revenue from MSA's in our calculation of backlog.

Most contracts may be terminated by our customers on short notice, typically 30 to 90 days, but sometimes less. Reductions in backlog due to cancellation by a customer or for other reasons could significantly reduce the revenue and profit we actually receive from contracts in backlog. In the event of a project cancellation, we may be reimbursed for certain costs but we typically have no contractual right to the total revenues reflected in our backlog. Projects may remain in backlog for extended periods of time. Given these factors and our method of calculating backlog, our backlog at any point in time may not accurately represent the revenue that we expect to realize during any period and our backlog as of the end of a fiscal year may not be indicative of the revenue we expect to earn in the following fiscal year. Consequently, there can be no assurances as to the accuracy of our customers' requirements or our estimates. Inability to realize revenue from our backlog could have an adverse effect on our financial condition, results of operations and cash flows.

Our use of percentage-of-completion accounting could result in a reduction or elimination of previously reported profits, which reduction or elimination may result in an adverse effect on our financial condition, results of operations and cash flows.

As discussed in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and in the notes to our consolidated financial statements, our revenue is recognized on a percentage-of-completion method of accounting, using the cost-to-cost method, where revenues are estimated based on the percentage of costs incurred to date to total estimated costs. This method is used because management considers expended costs to be the best available measure of progress on these contracts. This accounting method is standard for fixed-price contracts. The percentage-of-completion accounting practice we use results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based upon ongoing reviews of contract profitability. Penalties are recorded when known or finalized, which generally is during the latter stages of the contract. In addition, we record adjustments to estimated costs of contracts when we believe the change in the estimate is probable and the amounts can be reasonably estimated. These adjustments could result in both increases and decreases in profit margins. Actual results could differ from estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, it is possible that such adjustments could be significant and could have an adverse effect on our financial condition, results of operations and cash flows.

Our financial results are based upon estimates and assumptions that may differ from actual results and such errors between the estimates and actual results may have an adverse effect on our financial condition, results of operations and cash flows.

In preparing our consolidated annual and quarterly financial statements in conformity with GAAP, many estimates and assumptions are used by management in determining the reported revenues and expenses recognized during the periods presented, and disclosures of contingent assets and liabilities known to exist as of the date of the financial statements. 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 times, these estimates are particularly difficult to determine and we must exercise significant judgment. Estimates may be used in our assessments of the allowance for doubtful accounts, useful lives of property and equipment, fair value assumptions in analyzing goodwill and long-lived asset impairments, self-insured claims liabilities, revenue recognition under percentage-of-completion accounting and provisions for income taxes. From time-to-time we may publicly provide earnings or other forms of guidance, which reflect our predictions about future revenue, operating costs and capital structure, among other factors. These predictions may be impacted by estimates, as well as other factors that are beyond our control and may not turn out to be correct. Actual results for all estimates could differ materially from the estimates and assumptions that we use, which could have an adverse effect on our financial condition, results of operations and cash flows.

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The timing of new contracts may result in unpredictable fluctuations in our cash flow and profitability, which could adversely affect our business.

A substantial portion of our revenues are derived from project-based work that is awarded through a competitive bid process. The portion of revenue generated from the competitive bid process for 2008, 2007 and 2006 was 45%, 44% and 63%, respectively. It is generally very difficult to predict the timing and geographic distribution of the projects that we will be awarded. The selection of, timing of or failure to obtain projects, delays in award of projects, the re-bidding or termination of projects due to budget overruns, cancellations of projects or delays in completion of contracts could result in the under-utilization of our assets and reduce our cash flows. Even if we are awarded contracts, we face additional risks that could affect whether, or when, work will begin. For example, some of our contracts are subject to financing, permitting and other contingencies that may delay or result in termination of projects. This can present difficulty in matching workforce size and equipment location with contract needs. In some cases, we may be required to bear the cost of a ready workforce and equipment that is larger than necessary, resulting in unpredictability in our cash flow, expenses and profitability. If any expected contract award or the related work release is delayed or not received, we could incur substantial costs without receipt of any corresponding revenues. Moreover, construction projects for which our services are contracted may require significant expenditures by us prior to receipt of relevant payments by a customer and may expose us to potential credit risk if such customer should encounter financial difficulties. Finally, the winding down or completion of work on significant projects that were active in previous periods will reduce our revenue and earning if such significant projects have not been replaced in the current period.

If we fail to integrate future acquisitions successfully, we may experience operational challenges and risk which may have an adverse effect on our business and results of operations.

As part of our growth strategy, we may acquire companies that expand, complement, or diversify our business. Future acquisitions may expose us to operational challenges and risks, including the diversion of management's attention from our existing business, the failure to retain key personnel or customers of an acquired business, the assumption of unknown liabilities of the acquired business for which there are inadequate reserves and the potential impairment of acquired intangible assets. Our ability to sustain our growth and maintain our competitive position may be affected by our inability to successfully integrate any businesses acquired.

Our business may be materially adversely impacted by regional, national and/or global requirements to significantly limit or reduce greenhouse gas emissions in the future.

Greenhouse gases that result from human activities, including burning of fossil fuels, have been the focus of increased scientific and political scrutiny and are being subjected to various legal requirements. International agreements, national laws, state laws and various regulatory schemes limit or otherwise regulate emissions of greenhouse gases, and additional restrictions are under consideration by different governmental entities. We derive a significant amount of revenues and contract profits from engineering and construction services to clients that own and/or operate a wide range of process plants and own and/or operate electric power generating plants that generate electricity from burning natural gas or various types of solid fuels. These plants emit greenhouse gases as part of the process to generate electricity or other products. Compliance with the existing greenhouse gas regulation may prove costly or difficult. It is possible that owners and operators of existing or future process plants and electric generating plants could be subject to new or changed environmental regulations that result in significantly limiting or reducing the amounts of greenhouse gas emissions, increasing the cost of emitting such gases or requiring emissions allowances. The costs of controlling such emissions or obtaining required emissions allowances could be significant. It also is possible that necessary controls or allowances may not be available. Such regulations could negatively impact client investments in capital projects in our markets, which could negatively impact the market for our products and/or services. This could materially adversely affect our business, financial condition, results of operations and cash flows.

Our international operations expose us to legal, political and economic risks in different countries as well as currency exchange rate fluctuations that could harm our business and financial results.

During 2008 and 2007, revenue attributable to our services outside of the United States was approximately 5.2% and 4.7% of our total revenue, respectively. This revenue is derived primarily from Ecuador and Canada. There are risks inherent in doing business internationally, including:

- Imposition of governmental controls and changes in laws, regulations, policies, practices, tariffs and taxes;
- Political and economic instability;
- Changes in U.S. and other national government trade policies affecting the market for our services;
- Potential non-compliance with a wide variety of laws and regulations, including the U.S. Foreign Corrupt Practices Act and similar non-U.S. laws and regulations;
- Currency exchange rate fluctuations, devaluations and other conversion restrictions;
- Restrictions on repatriating foreign profits back to the United States; and
- Difficulties in staffing and managing international operations.

Any of these factors could have a material adverse effect on our business, financial condition, results of operations and cash flows. We review foreign operations annually to determine the viability and outlook for those operations.

Risks Related to our Common Stock

Our outstanding Warrants and option may be exercised in the future, which would increase the number of shares in the public market and result in dilution to our stockholders.

As of December 31, 2008, there were outstanding Warrants to purchase an aggregate of 4,894,456 shares of common stock at a price of $5.00 per share and an option to purchase 450,000 Units at a price of $8.80 per Unit (each unit consisting of one share of common stock and one Warrant). These Warrants are exercisable until October 2, 2010. These Warrants will likely be exercised only if the $5.00 per share exercise price is below the market price of our common stock. The Units are exercisable until October 2, 2011. To the extent such Warrants or option are exercised, additional shares of our common stock will be issued, which will result in dilution to our stockholders and increase the number of shares eligible for resale in the public market. Sales of substantial numbers of such shares, as well as the sale of shares in the public market issued pursuant to our 2008 Long-term Incentive Equity Plan could adversely affect the market price of our common stock.

The NASDAQ Global Market may delist our securities from quotation on its exchange which could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.

The Company is listed on the NASDAQ Global Market exchange, which has certain listing requirements that we must comply with. We may be unable to maintain the listing of our securities in the future.

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If NASDAQ delists our securities from trading on its exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

Our securities on the NASDAQ Global Market are deemed to be shares of a "controlled company" within the meaning of the NASDAQ Global Market listing requirements and, as a result, we will be exempt from certain corporate governance requirements, which may result in reduced corporate governance protections to our stockholders.

At the time of the merger in July 2008, Brian Pratt, the Chief Executive Officer and President of the Company, beneficially held more than 50% of the voting power of the Company, through his ownership of shares of our common stock and by the delivery of revocable proxies to Mr. Pratt from certain of our stockholders. As a result, the Company is considered a "controlled company" for purposes of the NASDAQ listing requirements (a corporation which more than 50% of the voting power is held by an individual, a group or another company). Therefore, the Company is not subject to the NASDAQ listing requirements that would otherwise require the board of directors to have a majority of independent directors and the compensation and nominating committees to be comprised entirely of independent directors. Accordingly, the Company's stockholders will not have the same protections afforded to stockholders of companies that are subject to all of such NASDAQ corporate governance requirements, and the ability of independent directors to influence the business policies and affairs will likely be substantially reduced.

Three of our directors are significant stockholders, which will make it possible for them to have significant influence over the outcome of all matters submitted to our stockholders for approval and which influence may be alleged to conflict with our interests and the interests of our other stockholders.

As of December 31, 2008, three of our directors and principal stockholders own an aggregate in excess of 50% of the outstanding shares of our common stock. On his own, with the revocable proxies that have been granted to him, Brian Pratt beneficially owned and had the power to vote approximately 76.1% of the outstanding shares of our common stock at December 31, 2008. These stockholders will have significant influence over the outcome of all matters submitted to our stockholders for approval, including the election of our directors and other corporate actions. In addition, such influence by one or more of these affiliates could have the effect of discouraging others from attempting to purchase us, take us over, and/or reducing the market price offered for our common stock in such an event.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Facilities

Our executive offices are located at 26000 Commercentre Drive, Lake Forest, California 92630. The telephone number at our executive office is (949) 598-9242. The Construction Services segment of our business has regional offices located in Pittsburg, San Francisco, Bakersfield, and San Diego, California; Conroe and Pasadena, Texas; Sarasota and Ft. Lauderdale, Florida; and Quito, Ecuador. The Engineering segment of our business has offices located in San Dimas, California and in Calgary, Canada.

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We lease all of the facilities used in our operations. The leases are generally for 10 to 12-year terms, expiring through 2019. The aggregate lease payments made for our facilities in 2008 were $2,814,000. We believe that our facilities are adequate to meet our current and foreseeable requirements for the next several years.

We lease some of our facilities, employees and certain construction and transportation equipment from Stockdale Investment Group, Inc. ("SIGI"). All of these leases were entered into on similar terms as negotiated with an independent third party. Our majority stockholder, Chief Executive Officer, President and Chairman of the Board, Brian Pratt, also is a majority interest holder in SIGI. In addition, two of our officers and/or directors also serve as officers and/or directors of SIGI, as follows (with their respective positions with SIGI reflected in parentheses): Brian Pratt (chairman and director) and John M. Perisich (secretary). Two of our officers and directors also served as officers and directors of SIGI prior to the July 2008 merger, including John P. Schauerman (president and director) and Scott Summers (vice president and director).

Property, Plant and Equipment

We own and maintain both construction and transportation equipment. In 2008, 2007 and 2006, we spent approximately $10.1 million, $2.2 million and $1.5 million, respectively, in cash for capital equipment. Additionally, we incurred debt for the acquisition of property and equipment in the amounts of approximately $7.1 million in 2008, $6.6 million in 2007 and none in 2006. An estimated breakdown of capital equipment as of December 31, 2008 is as follows:

Heavy construction and specialized equipment 440 units; and

Transportation equipment 470 units.

We believe the ownership of equipment is preferable to leasing to ensure the equipment is available as needed. In addition, such ownership has historically resulted in lower equipment costs. We attempt to obtain projects that will keep our equipment fully utilized in order to increase profit. All equipment is subject to scheduled maintenance to insure reliability. Maintenance facilities exist at each of our regional offices as well as on-site on major jobs to properly service and repair equipment. Major equipment not currently utilized is rented to third parties to supplement equipment income.

The following summarizes total property, plant and equipment, net of accumulated depreciation, as of December 31, 2008 and 2007:

	2008 (In Thousands)	2007 (In Thousands)	Useful Life
Land and buildings	$ 805	$ 48	30 years
Leasehold improvements	988	988	Lease life
Office equipment	671	709	3 - 5 years
Construction equipment	46,993	39,535	3 - 7 years
Transportation equipment	10,119	6,992	3 - 18 years
	59,576	48,272	
Less: accumulated depreciation and amortization	(33,352)	(32,129)	
Net property and equipment	$ 26,224	$ 16,143	

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ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

We are from time to time subject to claims and legal proceedings arising out of our business. Our management believes that we have meritorious defenses to the claims. Although we are unable to ascertain the ultimate outcome of such matters, after review and consultation with counsel and taking into consideration relevant insurance coverage and related deductibles, management believes that the outcome of these matters will not have a materially adverse effect on our financial condition or results of operations.

Government Regulations

Our operations are subject to compliance with regulatory requirements of federal, state, and municipal agencies and authorities, including regulations concerning labor relations, affirmative action and the protection of the environment. While compliance with applicable regulatory requirements has not adversely affected operations in the past, there can be no assurance that these requirements will not change and that compliance with such requirements will not adversely affect operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On July 31, 2008, we merged with Primoris Corporation, a Nevada corporation ("Former Primoris"), and thereafter our common stock, warrants to purchase common stock ("Warrants") and Units (each unit consisting of one share of common stock and one Warrant) began trading on the NASDAQ Global Market under the symbols "PRIM", "PRIMW" and "PRIMU", respectively. Originally, our common stock traded on the OTC Bulletin Board under the ticker symbol "RPSD". As of March 19, 2009, we had outstanding 29,950,494 shares of common stock which were held of record by 56 stockholders. These holders of record include depositories that hold shares of stock for brokerage firms, which in turn, hold shares of stock for numerous beneficial owners.

The following table shows the range of market prices of our common stock during 2007 and 2008.

	Market price per Share	
	High	**Low**
Year ended December 31, 2008		
First Quarter	$ 7.99	$ 7.51
Second Quarter	$ 8.49	$ 7.80
Third Quarter	$ 8.64	$ 3.44
Fourth Quarter	$ 7.70	$ 3.28
Year ended December 31, 2007		
First Quarter	$ 7.53	$ 7.30
Second Quarter	$ 7.58	$ 7.27
Third Quarter	$ 7.50	$ 7.37
Fourth Quarter	$ 7.54	$ 7.40

Dividend Policy

On February 19, 2008, we entered into an Agreement and Plan of Merger ("Merger Agreement") with Former Primoris and certain stockholders of Former Primoris. Subsequent to the July 2008 merger, the Merger Agreement provided that our board of directors will initially declare and pay annual dividends on our common stock at a rate of not less than $0.10 per share; provided, however, that the board of directors will not declare any such dividend unless, at the time of declaration, there is adequate surplus for such declaration under Delaware law, or if the board of directors, in the exercise of their business judgment, believes that it would be prudent to cancel or modify the dividend payment. The payment of dividends subsequent to the merger are contingent upon our revenues and earnings, if any, capital requirements and general financial condition of the company, as well as contractual restrictions and other considerations deemed relevant by the board of directors.

On August 8, 2008, the Company's Board of Directors declared a cash dividend of $0.025 per share on the Company's outstanding shares of common stock, payable to stockholders of record as of September 23, 2008. These dividends were paid on October 10, 2008. On November 10, 2008, a cash dividend of $0.025 per share was declared, payable to stockholders of record as of December 23, 2008. These dividends were paid on January 6, 2009. On March 16, 2009, a cash dividend of $0.025 per share was declared, payable to stockholders of record as of March 31, 2009 with an anticipated distribution date on or about April 15, 2009.

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Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2008.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	0	0	1,520,000(1)
Equity compensation plans not approved by security holders	0	0	0
Total	0	0	1,520,000

(1) Represents shares of common stock available for issuance under our 2008 Long-term Incentive Equity Plan ("2008 Equity Plan"). The material features of our 2008 Equity Plan are described in Notes 2, 23 and 24 to our consolidated financial statements for the year ended December 31, 2008.

Repurchases of Securities

Period	(a) Total Number of Warrants Purchased	(b) Average Price Paid per Warrant	(c) Total Number of Warrants Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
November 2008 (November 25, 2008 through November 30, 2008)(1)				$ 4,500,000
December 2008 (December 1, 2008 through December 31, 2008)(1)	1,416,908	$ 1.20	1,416,908	
Total	1,416,908	$ 1.20	1,416,908	

(1) On November 25, 2008, the Board authorized a "modified Dutch Auction" tender offer to purchase for cash up to a maximum of $4.5 million worth of our Warrants at a price per Warrant of not less than $0.85 and not great than $1.20. The tender offer was concluded at midnight December 24, 2008 and resulted in the purchase of 1,416,908 Warrants at a price of $1.20 per Warrant. The total cost of the purchase was approximately $1.7 million, excluding fees and expenses related to the tender offer. The Warrants accepted for purchase represented approximately 22.5% of the 6,311,364 redeemable Warrants outstanding as of November 25, 2008.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and our audited financial statements and the accompanying notes included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
					(Unaudited)
	(In thousands except per share data)				
Statement of Operations Data:					
Revenues	$609,072	$547,666	$439,405	$362,485	$ 307,906
Cost of revenues	537,929	488,314	399,917	333,866	284,509
(Recover of) provision for estimated losses on uncompleted contracts	700		(462)	3,623	
Gross profit (loss)	70,443	59,352	39,950	24,996	23,397
Selling, general and administrative expense	31,522	29,517	26,769	21,628	20,887
Merger related stock expense	4,050				
Operating income	34,871	29,835	13,181	3,368	2,510
Other income (expense)	6,389	(1,853)	1,244	702	(1,563)
Income before income taxes	41,260	27,982	14,425	4,070	947
Income tax provision	(4,827)	(848)	(1,197)	(18)	(18)
Income from continuing operations	36,433	27,134	13,228	4,052	929
(Loss) gain on discontinued operations (2)			(28)	1,519	(4,513)
Net income (loss)	$ 36,433	$ 27,134	$ 13,200	$ 5,571	$ (3,584)
Net income (loss) per share:					
Basic	$ 1.39	$ 1.16	$ 0.56	$ 0.23	$ (0.15)
Diluted	$ 1.29	$ 1.16	$ 0.56	$ 0.23	$ (0.15)
Weighted average common shares outstanding:					
Basic	26,258	23,458	23,402	23,897	23,843
Diluted	28,156	23,458	23,402	23,897	23,843
Pro Form Data (unaudited) (1)					
Income before income taxes, as reported	$ 41,260	$ 27,982	$ 14,425	$ 4,070	$ 947
Pro forma provision for income taxes	$ (16,421)	$ (11,137)	$ (5,741)	$ (1,620)	$ (377)
Pro forma net income (loss)	$ 24,839	$ 16,845	$ 8,684	$ 2,450	$ 570
Pro forma earnings per common share:					
Basic	$ 0.95	$ 0.72	$ 0.37	$ 0.10	$ 0.02
Diluted	$ 0.88	$ 0.72	$ 0.37	$ 0.10	$ 0.02

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	As of December 31,				
	2008	2007	2006	2005	2004
					(Unaudited)
Balance Sheet Data:					
Cash and cash equivalents	$ 73,018	$ 62,966	$ 13,115	$ 16,904	$ 4,746
Short term investments	$ 15,036	$	$	$	$
Accounts receivable, net	$ 90,826	$113,307	$105,915	$ 59,105	$ 48,238
Total assets	$252,212	$220,973	$162,309	$125,982	$ 104,257
Total current liabilities	$168,392	$150,123	$ 97,828	$ 73,670	$ 62,336
Long-term debt, net of current portion	$ 26,965	$ 22,641	$ 21,328	$ 18,597	$ 12,403
Stockholders' equity	$ 55,430	$ 46,923	$ 42,207	$ 32,165	$ 28,901

(1) Prior to the merger in July 2008, Former Primoris was taxed as an S-Corporation for purposes of federal and state income taxes. As a result of the merger, the S-Corporation status terminated and the combined entity is now taxed as a C-Corporation under federal and state tax laws. The pro forma data reflects the combined federal and state income taxes on a pro forma basis as if both Former Primoris and we had been taxed as a C-Corporation during those periods using an effective tax rate of 39.8 percent.

(2) During 2004, Former Primoris decided to cease all operations in Chile. During 2005, ARB Chile prevailed in a legal action against a customer in Chile, resulting in a substantial payment included in the gain on discontinued operations for 2005 of $1,519.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes to those statements included elsewhere in this Annual Report on Form 10-K. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. See "Forward Looking Statements" elsewhere in this Annual Report on Form 10-K. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including certain risks inherent with our business as discussed in "Item 1A Risk Factors".

Introduction

Primoris Services Corporation is a holding company with various subsidiaries that, cumulatively form a diversified engineering and construction company providing a wide range of construction, fabrication, maintenance, replacement and engineering services to major public utilities, petrochemical companies, energy companies, municipalities and other customers.

We install, replace, repair and rehabilitate natural gas, refined product, water and wastewater pipeline systems, and also constructs mechanical facilities and other structures, including power plants, petrochemical facilities, refineries and parking structures. In addition, we provide maintenance services, including inspection, overhaul and emergency repair services, to cogeneration plants, refineries and similar mechanical facilities. Through our subsidiary Onquest, Inc., we provide engineering and design services for fired heaters and furnaces primarily used in refinery applications. Through our subsidiary Cardinal Contractors, Inc., we construct water and wastewater facilities in Florida. A substantial portion of our activities are performed in the Western United States, and more specifically in California. In addition, we have strategic presences in Florida, Texas, Latin America and Canada.

As discussed elsewhere in this Annual Report on Form 10-K, on July 31, 2008, we completed a merger of Rhapsody Acquisition Corp. and Primoris Corporation ("Former Primoris"). Unless specifically noted otherwise, as used throughout this Management's Discussion and Analysis section, "Primoris", the "Company" or "we," "our," or "us" refers to the business, operations and financial results of Former Primoris prior to, and Primoris Services Corporation subsequent to, the closing of the merger on July 31, 2008, between Rhapsody and Former Primoris as the context requires. "Rhapsody" refers to the operations or financial results of Rhapsody Acquisition Corp. prior to the closing of the merger.

The merger was accounted for as a reverse acquisition. Under this method of accounting, we were treated as the "acquired" company for financial reporting purposes. This determination was primarily based on the operations and management of Former Primoris comprising the ongoing operations and management of the Company after the merger. In accordance with guidance applicable to these circumstances, the merger was considered to be a capital transaction in substance. Accordingly, for accounting purposes, the merger was treated as the equivalent of Former Primoris issuing stock for our net assets, accompanied by a recapitalization. Our pre-merger net assets are stated at historical cost, with no goodwill or other intangible assets recorded.

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We provide services in the following two segments:

Construction Services Segment:

The Construction Services segment specializes in a range of services that include designing, building/installing, replacing, repairing/rehabilitating and providing management services for construction related projects. Our services include:

- Providing installation of underground pipeline, cable and conduits for entities in the petroleum, petrochemical and water industries;
- Providing installation and maintenance of industrial facilities for entities in the petroleum, petrochemical and water industries; and
- Providing installation of complex commercial and industrial cast-in-place structures.

Engineering Segment:

The Engineering group specializes in designing, supplying and installing high-performance furnaces, heaters, burner management systems, and related combustion and process technologies for clients in the oil refining, petrochemical, and power generation industries. It also furnishes turnkey project management with the technical expertise and the ability to deliver custom engineering solutions worldwide.

Outlook

In 2008, Primoris attained record levels of revenues and operating income. Compared to the prior year, revenues grew by 11.2%, gross profit by 18.7% and operating income by 16.9%. Like most businesses, we expect current challenging market conditions to negatively impact our results in 2009.

We expect that the difficult credit conditions and the downturn in the United States gross domestic product will cause some of our customers to delay or postpone construction projects. We are seeing forecasts predicting 10% to 20% potential declines in construction activity in the United States in 2009, and we anticipate less activity in the petroleum sector as oil prices remain at significantly lower levels than in July 2008. We also believe that gross profit margins may decline as competitors bid projects more aggressively in order to maintain revenue levels. Possibly offsetting these market conditions are the potential positive effects of the United States American Recovery and Reinvestment Act enacted in February 2009 and potential opportunities in the renewable energy sector.

In 2009, we plan to emphasize our strategic goals by continuing efforts to improve the effectiveness and efficiency of our operations. We expect to maintain a strong competitive position with existing customers and in our current geographical locations. We also expect to continue to manage our working capital effectively and to be prudent in the allocation of our capital. To that end, we will carefully consider selective acquisitions.

Material trends and uncertainties

We generate our revenue from both large and small construction and engineering projects. The award of these contracts is dependent on a number of factors, many of which are not within our control. Business in the construction industry is cyclical. We depend in part on spending by companies in the energy, and oil and gas industries, as well as on municipal water and wastewater customers. Over the past several years, both our Construction Services and Engineering segments have benefited from demand for more efficient and more environmentally friendly energy and power facilities and from the strength of the oil and gas industry. Economic factors outside of our control may affect the amount and size of contracts in any particular period.

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The current economic issues in the financial markets will likely have some impact on our future results. While we currently have adequate backlog and projects to bid, we are uncertain as to how the current global financial turmoil will impact our clients who provide our future work.

Seasonality and cyclicality

Our operating results can be subject to seasonal and cyclical variations. Weather, particularly rain, can impact our ability to perform construction work. Our clients' budget cycles have an impact on the timing of project awards. Accordingly, our financial condition and operating results may vary from quarter-to-quarter.

Results of operations

Revenue, gross profit, operating income and net income for the years ended December 31, 2008, 2007 and 2006 were as follows:

	2008		2007		2006	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Statement of Operations Data:						
Revenues	$ 609,072	100.0%	$ 547,666	100.0%	$ 439,405	100.0%
Gross profit	70,443	11.6%	59,352	10.8%	39,950	9.1%
Selling, general and administrative expense	31,522	5.2%	29,517	5.4%	26,769	6.1%
Merger related stock expense	4,050	0.7%				0.0%
Operating income	34,871	5.7%	29,835	5.4%	13,181	3.0%
Other income (expense)	6,389	1.0%	(1,853)	(0.3)%	1,244	0.3%
Income before income taxes	41,260	6.8%	27,982	5.1%	14,425	3.3%
Provision for income taxes	(4,827)	(0.8)%	(848)	(0.2)%	(1,197)	(0.3)%
Income from continuing operations	36,433	6.0%	27,134	5.0%	13,228	3.0%
Loss on discontinued operations					(28)	0.0%
Net income	$ 36,433	6.0%	$ 27,134	5.0%	$ 13,200	3.0%

Revenue increased $61.4 million, or 11.2%, for 2008 as compared to 2007 as a result of growth in both of our segments, led primarily by strong growth in facility work in our Construction Services segment. Both our Engineering segment and foreign operations revenues increased reflecting the strength of the petroleum industry. In 2008, our Construction Services segment provided 84.7% of total revenues compared to 85.9% of total revenues in 2007.

Gross profit increased by $11.1 million, or 18.7%, for 2008 as compared to 2007 reflecting higher margin work in the refining and energy sectors of the economy. For 2008, gross profit provided by our Construction Services segment represented 92.2% of the total gross profit compared to 86.9% of total gross profit in 2007.

Revenue increased by $108.3 million, or 24.6%, for 2007 as compared to 2006. The increase was primarily due to several large, new projects for the power sector and refining industry as well as a significant increase in the Engineering segment revenue primarily due to services for one large client. For 2007, our Construction Services segment provided 85.9% of total revenues compared to 91.0% of total revenues in 2006.

Gross profit increased by $19.4 million, or 48.6%, for 2007 as compared to 2006, primarily due to a change in contracts from relatively low gross profit water and wastewater projects to projects in the refining industry. In 2007, gross profit provided by the Construction Services segment represented 86.9% of total gross profit compared to 84.9% of total gross profit in 2006.

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Geographic areas financial information

Revenue by geographic area for the years ended December 31, 2008, 2007 and 2006 was as follows:

	2008		2007		2006	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Country:						
United States	$ 577,090	94.8%	$ 521,663	95.3%	$ 411,095	93.6%
Canada	20,732	3.4%	20,961	3.8%	18,911	4.3%
Equador	11,250	1.8%	5,042	0.9%	9,399	2.1%
Total Revenue	$ 609,072	100.0%	$ 547,666	100.0%	$ 439,405	100.0%

Note that revenue is attributed to the countries based on our reporting entity that records the transaction.

Segment Results

The following discussion describes the significant factors contributing to the results of our two operating segments.

Construction Services Segment

Revenue and gross profit for the Construction Services segment for the years ending December 31, 2008, 2007 and 2006 were as follows:

	2008		2007		2006	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Construction Services						
Revenue	$ 516,130		$ 470,366		$ 399,672	
Gross Profit	$ 64,965	12.6%	$ 51,593	11.0%	$ 33,922	8.5%

Revenue for the Construction Services segment increased by $45.8 million, or 9.7%, for 2008 compared to 2007. This revenue increase was led primarily by a $98.2 million increase in Construction Services for industrial facilities primarily in the refining industry as customers increased their capacity and upgraded their infrastructure in an environment of increasing worldwide petroleum pricing. The revenue increase was offset by reductions of revenue of $57.2 million primarily in pipeline, water and wastewater and cable and conduit underground projects and cast-in-place structure projects reflecting significant work completed at the end of 2007 and early 2008, thus affecting revenue comparisons. Revenue generated by our subsidiary in Ecuador increased by $6.2 million.

Construction Services segment gross profit increased by $13.4 million, or 25.9%, for 2008 compared to 2007. The increase resulted from both increased revenue and improved margins as a percent of revenue to 12.6% in 2008 from 11.0% in 2007. Of the $13.4 million gross profit increase, approximately $5.1 million was due to increased revenues and $8.3 million was due to the improved gross profit percentage. The primary reasons for the gross profit margin increase were changes from lower margin water and wastewater and underground and structure projects to higher margin industrial projects in the petroleum and power industry.

Construction Services segment revenues increased by $70.7 million, or 17.7% for 2007 compared to 2006. The increase was primarily from an increase in new projects for the power sector and significant expansion in the overall refining industry. The increase was partially offset by a planned decrease in the number of new water and wastewater projects. We have made the decision to limit our construction of water and wastewater projects to a highly selective few projects due to the lower profitability of these projects as compared to other underground projects.

Construction Services segment gross profit increased by $17.7 million, or 52.1%, for 2007 compared to 2006. The increase resulted from both increased revenues and improved margins as a percentage of revenue to 11.0% in 2007 from 8.5% in 2006. Of the $17.7 million gross profit increase, approximately $6.0 million was due to increased revenues and $11.7 million was due to the improved gross profit percentage. The increase resulting from improved margins was due primarily to a shift in project work from fixed-fee water and wastewater projects to a broader mix of underground projects as well as an increase in cost-plus work for the refining industry.

Engineering Segment

Revenue and gross profit for the Engineering segment for the years ended December 31, 2008, 2007 and 2006 were as follows:

	2008		2007		2006	
	(Thousands)	% of Revenue	(Thousands)	% of Revenue	(Thousands)	% of Revenue
Engineering Segment						
Revenue	$ 92,942		$ 77,300		$ 39,733	
Gross Profit	$ 5,478	5.9%	$ 7,759	10.0%	$ 6,028	15.2%

Revenue increased by $15.6 million, or 20.2%, for 2008 compared to 2007. The primary reason for the increase was the effect of an alliance agreement we made with a major client in November 2007. Alliance projects generated $36.4 million in revenue in 2008 compared to $16.7 million in 2007.

Engineering segment gross profit declined by $2.3 million, or 29.4%, for 2008 compared to 2007. The decrease was the result of a significant decrease in the gross profit percentage, which declined to 5.9% of revenue in 2008 from 10.0% in 2007. At the 2007 gross profit margin, the gross profit impact from the increase in revenues for 2008 was $1.6 million while the gross profit margin decrease reduced profitability by $3.9 million. In 2008, we reversed gross profit on certain alliance projects by $2.1 million and we recognized a lower gross profit percentage on a $48.1 million project with expected completion in early 2009. In addition, at the unusually high 2008 revenue levels for the segment, we allocated a greater percentage of general and administrative expenses to cost of sales, reducing the gross profit margin. We expect that the gross profitability in this segment will trend toward higher historical levels in 2009.

Engineering segment revenue increased by $37.6 million, or 94.5%, for 2007 compared to 2006. The revenue increase was primarily the result of one large process plant project in the refining and energy sector.

Engineering segment gross profit increased by $1.7 million, or 28.7%, for 2007 compared to 2006. The increase resulted from an increase in revenue, which was offset by reduced gross profit margins as a percentage of revenues. Gross profit was reduced by recognition of a loss of approximately $1.0 million on a project in Canada in early 2007. The comparison of 2007 and 2006 gross profit margins was also affected by an unusual high margin percentage in 2006 compared to historical gross profit margins for this segment.

Selling, general and administrative expenses

Selling, general and administrative expenses ("SG&A") increased $2.0 million, or 6.8%, for 2008 compared to 2007. The increase was due principally to an increase in personnel expenses of $4.1 million to meet future growth, partially offset by higher absorption of overhead expenses of $2.3 million, as a result of increased activity in the Engineering segment, a decrease in legal fees of $0.6 million, and an increase in gain on sales of fixed assets of $0.5 million.

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SG&A as a percentage of revenue decreased to 5.2% for 2008, from 5.4% for 2007. The decrease in SG&A as a percentage of revenue was primarily related to the relatively fixed accounting, administrative and management expenses, which did not increase proportionally with the increased revenue. These benefits were partially offset by increased SG&A from public company reporting obligations, primarily increased accounting and legal expenses.

SG&A expenses increased $2.7 million, or 10.3%, for 2007 compared to 2006. The increase was primarily due to a $2.3 million increase in personnel expenses to meet the growth in revenues.

SG&A expenses as a percentage of revenue decreased to 5.4% for 2007 from 6.1% for 2006. The decrease in SG&A expenses as a percentage of revenue is due to the achievement of certain efficiencies as certain SG&A expenses, including some accounting, administrative and management expenses, are fixed and do not increase proportionally with expanded volume.

Merger related stock expense

On February 19, 2008, we entered into an Agreement and Plan of Merger with Former Primoris and certain stockholders of Former Primoris ("Merger Agreement"). In connection with the Merger Agreement, we entered into agreements with two foreign managers that called for the issuance of 507,600 shares of our common stock. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "*Share-based payments*" we recognized $3.7 million of non-cash expenses and recorded an increase to additional paid-in capital. The issuance of the shares was a non-recurring event directly related to the consummation of the merger and therefore, the entire value of the shares at July 31, 2008 was taken as a charge to earnings.

As discussed in Part 1 Item 1 of this Annual Report on Form 10-K, the Company achieved a specified EBITDA milestone for 2008 and consequently, 2,500,025 shares of Company stock will be issued to Former Primoris shareholders in March 2009. The two foreign managers will receive their proportionate number of these shares, which resulted in a charge of $0.4 million.

Other income and expense

Non-operating income and expense items for the years ended December 31, 2008, 2007 and 2006 were as follows:

	2008 (Thousands)	2007 (Thousands)	2006 (Thousands)
Other income (expense)			
Income from non-consolidated investments	$ 6,065	$ (1,359)	$ 1,800
Foreign exchange gain (loss)	$ 855	$ (471)	$ 168
Interest income	1,719	1,750	595
Interest expense	(2,250)	(1,773)	(1,319)
Total other income	$ 6,389	$ (1,853)	$ 1,244

For 2008, we recognized income of $6.1 million from the Otay Mesa Power Partners ("OMPP") joint venture, a power plant construction project near San Diego, California which we expect to complete in 2009. Income from non-consolidated joint ventures for 2007 consisted of income of $2.2 million from the OMPP joint venture, offset by the 49% share in the losses of ARB Arendal, a joint venture in Monterrey, Mexico, resulting in a net loss of $1.4 million for the year. In December 2007, we made the decision to record a $3.6 million "other than temporary impairment" of our investment in ARB Arendal because of a client dispute with an uncertain outcome.

Foreign exchange gain for 2008 and foreign exchange loss for 2007 reflect currency exchange fluctuations of the United States dollar compared to the Canadian dollar. Our contracts in Calgary,

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Canada are sold based on United States dollars, but a portion of the work is paid for with Canadian dollars, which can create a currency exchange difference.

Interest income decreased for 2008 compared to 2007 as a result of declining interest rates and our decision to invest our excess cash balances in Treasury bills and certificate of deposits ("CDs") rather than commercial paper, partially offset by higher average cash balances in the 2008 period.

Interest expense increased by $0.5 million for 2008 compared to 2007 reflecting our financing of net acquisitions of $15.9 million of property and equipment with long-term bank debt. The weighted average interest rate on total debt outstanding at December 31, 2008, 2007 and 2006 was 6.1%, 6.3% and 6.5%, respectively.

Equity income (loss) from non-consolidated investments for 2006 consisted of the 49% share in the profits of ARB Arendal, a joint venture project in Monterrey, Mexico. In 2007, we made the decision to record an "other than temporary impairment" of our investment in ARB Arendal of $3.6 million, because of a client dispute with an uncertain outcome. Our carrying value in ARB Arendal was zero after recognizing the impairment. The impairment loss was partially offset by $2.2 million of profit we recognized in 2007 from the OMPP joint venture, an energy plant construction project in California with anticipated completion in 2009.

Foreign exchange loss in 2007 reflected a currency exchange loss due to a devaluation of the U.S. dollar compared to the Canadian dollar. Our contracts in Calgary, Canada were sold based on U.S. dollars, but a portion of the work was paid for with Canadian dollars, which created a currency exchange difference.

Interest income increased in 2007 compared to 2006 due to higher average cash balances in 2007, which in turn resulted from higher revenue and profits.

Interest expense increased in 2007 compared to 2006 due to the financing of newly purchased equipment and the increase in long-term debt. We expect to continue to finance equipment acquisitions with increases in long-term debt.

Provision for income taxes

Our provision for income tax increased $4.0 million for 2008 to $4.8 million from 2007 as a result of the change of tax status from that of the combined entity from that of a Subchapter S of the Internal Revenue Code ("S-Corporation") to that of a Subchapter C of the Internal Revenue Code ("C-Corporation") as part of the Merger Agreement on July 31, 2008. Thereafter, we became subject to federal and state income tax in the jurisdictions in which we do business, including California. With the change in tax status, our effective tax rate for the twelve months ended December 31, 2008 was 11.7%, which included the impact of a $3.0 million tax benefit for establishing our beginning deferred tax assets. In the prior year, as an S-Corporation we had no provision for federal income tax and only minimal provision for state income tax.

Provision for income taxes for 2007 decreased $349,000 to $848,000 compared to a provision for income taxes of $1.2 million for 2006. For United States federal income tax purposes, Former Primoris was taxed as an S-Corporation and, accordingly, any United States federal income tax obligation was the personal liability of its stockholders. The 2007 provision for income taxes was principally the result of Canadian taxable income. The decrease in the provision for income taxes in 2007 for Former Primoris compared to 2006 was due to a lower Canadian taxable income.

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Pro forma net income data unaudited

Pro forma information concerning income tax provisions as if the company were taxed as a C-Corporation for the years ended December 31, 2008, 2007 and 2006 are shown as follows:

	2008 (Thousands)	2007 (Thousands)	2006 (Thousands)
Proforma net income data unaudited			
Income before provision for income taxes	$ 41,260	$ 27,982	$ 14,425
Pro forma income tax provision	(16,421)	(11,137)	(5,741)
Pro forma adjusted net income	$ 24,839	$ 16,845	$ 8,684

The estimated pro forma tax provision amounts were calculated at an effective statutory tax rate of approximately 39.8%.

Discontinued Operations

During September 2004, we decided to cease all operations in Chile. Related assets, liabilities, revenues and expenses were insignificant at and for the years ended December 31, 2007 and 2006. The fixed assets, consisting mainly of construction equipment, were sold locally or repatriated in 2006. In 2006, we recorded a loss on discontinued operations of $28,000, relating to the operations of ARB in Chile. We had no discontinued operations in 2007.

Critical Accounting Policies and Estimates

General 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 also affect the amounts of revenues 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. Estimates may be used in our assessments of revenue recognition under percentage-of-completion accounting, the allowance for doubtful accounts, useful lives of property and equipment, fair value assumptions in analyzing goodwill and long-lived asset impairments, self-insured claims liabilities and deferred income taxes. Actual results could differ from those that result from using the estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be based on assumptions about matters that are highly uncertain at the time the estimate is made, and different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact our consolidated financial statements.

The following accounting policies are based on, among other things, judgments and assumptions made by management that include inherent risks and uncertainties. Management's estimates are based on the relevant information available at the end of each period.

Fixed-price contracts Fixed-price contracts carry certain inherent risks, including underestimation of costs, problems with new technologies and economic and other changes that may occur over the contract period. We recognize revenues using the percentage-of-completion method for fixed-price contracts, which may result in uneven and irregular results. Unforeseen events and circumstances can alter the estimate of the costs and potential profit associated with a particular contract. To the extent that original cost estimates are modified, estimated costs to complete increase, delivery schedules are

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delayed, or progress under a contract is otherwise impeded, cash flow, revenue recognition and profitability from a particular contract may be overstated or understated.

Revenue recognition We typically structure contracts as unit-price, time and material, fixed-price or cost plus fixed fee. We believe that our operating results should be evaluated over a time horizon during which major contracts in progress are completed and change orders, extra work, variations in the scope of work and cost recoveries and other claims are negotiated and realized.

We recognize revenue on the percentage-of-completion method for all of the types of contracts described in the paragraph above. Under the percentage-of-completion method, estimated contract income and resulting revenue is generally accrued based on costs incurred to date as a percentage of total estimated costs. Total estimated costs, and thus contract income, are impacted by changes in productivity, scheduling, and the unit cost of labor, subcontracts, materials and equipment. Additionally, external factors such as weather, client needs, client delays in providing permits and approvals, labor availability, governmental regulation and politics may affect the progress of a project's completion and thus the timing of revenue recognition. If a current estimate of total contract cost indicates a loss on a contract, the projected loss is recognized in full when determined.

We consider unapproved change orders to be contract variations on which we have customer approval for scope change, but not for price change associated with such scope change. Costs associated with unapproved change orders are incl