DYCOM INDUSTRIES INC
Form 10-Q
June 01, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2011

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission File Number 001-10613

DYCOM INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Florida (State or other jurisdiction of incorporation or organization)	59-1277135 (I.R.S. Employer Identification No.)
11770 US Highway 1, Suite 101, Palm Beach Gardens, Florida (Address of principal executive offices)	33408 (Zip Code)

Registrant's telephone number, including area code: (561) 627-7171

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.33 1/3 per share	New York Stock Exchange
Series A Preferred Stock Purchase Rights	New York Stock Exchange

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]	Non-accelerated filer [ ]	Smaller reporting company [ ]

(Do not check if a smaller reporting company)

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

There were 34,045,788 shares of common stock with a par value of $0.33 1/3 outstanding at May 27, 2011.

Dycom Industries, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	April 30, 2011	July 31, 2010
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$89,027	$103,320
Accounts receivable, net	101,789	110,117
Costs and estimated earnings in excess of billings	73,899	66,559
Deferred tax assets, net	14,869	14,944
Income taxes receivable	6,836	3,626
Inventories	17,648	16,058
Other current assets	10,890	8,137
Total current assets	314,958	322,761
PROPERTY AND EQUIPMENT, NET	127,068	136,028
GOODWILL	173,364	157,851
INTANGIBLE ASSETS, NET	59,414	49,625
OTHER	14,222	13,291
TOTAL NON-CURRENT ASSETS	374,068	356,795
TOTAL	$689,026	$679,556
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$27,862	$25,881
Current portion of debt	383	47
Billings in excess of costs and estimated earnings	877	376
Accrued insurance claims	26,289	28,086
Other accrued liabilities	44,427	42,813
Total current liabilities	99,838	97,203
LONG-TERM DEBT	187,603	135,350
ACCRUED INSURANCE CLAIMS	22,974	24,844
DEFERRED TAX LIABILITIES, NET NON-CURRENT	28,567	24,159
OTHER LIABILITIES	3,685	3,445
Total liabilities	342,667	285,001
COMMITMENTS AND CONTINGENCIES, Notes 10, 11, and 16		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $1.00 per share: 1,000,000 shares authorized: no shares issued and outstanding	-	-

Common stock, par value $0.33 1/3 per share: 150,000,000 shares authorized:		
34,045,742 and 38,656,190 issued and outstanding, respectively	11,348	12,885
Additional paid-in capital	120,281	170,209
Accumulated other comprehensive income	295	169
Retained earnings	214,435	211,292
Total stockholders' equity	346,359	394,555
TOTAL	$689,026	$679,556

See notes to the condensed consolidated financial statements.

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DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended	
	April 30, 2011	April 24, 2010
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$252,363	$231,636
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	207,045	191,333
General and administrative (including stock-based compensation expense of $1.3 million and $0.8 million, respectively)	23,678	24,297
Depreciation and amortization	15,491	15,852
Total	246,214	231,482
Interest income	27	27
Interest expense	(4,422)	(3,386)
Loss on debt extinguishment	(2,557)	-
Other income, net	3,500	4,451
INCOME BEFORE INCOME TAXES	2,697	1,246
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	(1,326)	7
Deferred	2,534	(409)
Total	1,208	(402)
NET INCOME	$1,489	$1,648
EARNINGS PER COMMON SHARE:		
Basic earnings per common share	$0.04	$0.04
Diluted earnings per common share	$0.04	$0.04
WEIGHTED-AVERAGE SHARES USED IN COMPUTING EARNINGS PER COMMON SHARE:		
Basic	34,706,822	39,021,043
Diluted	35,323,667	39,054,443

See notes to the condensed consolidated financial statements.

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DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Nine Months Ended April 30, 2011	April 24, 2010
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$732,150	$707,082
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	597,987	582,241
General and administrative (including stock-based compensation expense of $3.1 million and $2.5 million, respectively)	68,338	71,698
Depreciation and amortization	46,894	46,558
Total	713,219	700,497
Interest income	90	85
Interest expense	(11,903)	(10,470)
Loss on debt extinguishment	(8,296)	-
Other income, net	7,464	6,459
INCOME BEFORE INCOME TAXES	6,286	2,659
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	(1,350)	(566)
Deferred	4,494	2,019
Total	3,144	1,453
NET INCOME	$3,142	$1,206
EARNINGS PER COMMON SHARE:		
Basic earnings per common share	$0.09	$0.03
Diluted earnings per common share	$0.09	$0.03
WEIGHTED-AVERAGE SHARES USED IN COMPUTING EARNINGS PER COMMON SHARE:		
Basic	35,800,175	39,028,637
Diluted	36,130,585	39,102,612

See notes to the condensed consolidated financial statements.

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DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended April 30, 2011	For the Nine Months Ended April 24, 2010
	(Dollars in thousands)	
OPERATING ACTIVITIES:		
Net income	$ 3,142	$ 1,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,894	46,558
Bad debt expense, net	12	62
Gain on sale of fixed assets	(6,810)	(6,143)
Deferred income tax provision	4,494	2,019
Stock-based compensation	3,086	2,488
Amortization and write-off of debt issuance costs	3,312	791
Excess tax benefit from share-based awards	(251)	(69)
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	14,590	18,782
Costs and estimated earnings in excess of billings, net	(6,073)	7,675
Other current assets and inventory	(3,361)	(6,895)
Other assets	807	(960)
Income taxes receivable	(3,210)	(1,380)
Accounts payable	(1,144)	(1,212)
Accrued liabilities and insurance claims	(3,398)	(14,240)
Net cash provided by operating activities	52,090	48,682
INVESTING ACTIVITIES:		
Capital expenditures	(32,255)	(38,222)
Proceeds from sale of assets	9,690	6,571
Cash paid for acquisitions	(36,500)	-
Changes in restricted cash	216	-
Net cash used in investing activities	(58,849)	(31,651)
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	187,500	-
Principal payments on long-term debt	(135,667)	(920)
Debt issuance costs	(5,105)	-
Repurchases of common stock	(55,491)	(4,489)
Exercise of stock options and other	1,174	30
Restricted stock tax withholdings	(196)	(273)
Excess tax benefit from share-based awards	251	69
Net cash used in financing activities	(7,534)	(5,583)
Net (decrease) increase in cash and equivalents	(14,293)	11,448

CASH AND EQUIVALENTS AT BEGINNING OF PERIOD		103,320		104,707
CASH AND EQUIVALENTS AT END OF PERIOD	$	89,027	$	116,155
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Cash paid during the period for:				
Interest	$	10,327	$	12,570
Income taxes	$	2,786	$	5,788
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	$	2,138	$	3,818

See notes to the condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

Basis of Presentation – Dycom Industries, Inc. (“Dycom” or the “Company”) is a leading provider of specialty contracting services. These services are provided throughout the United States and include engineering, construction, maintenance and installation services to telecommunications providers, underground facility locating services to various utilities including telecommunications providers, and other construction and maintenance services to electric and gas utilities and others. Additionally, Dycom provides services on a limited basis in Canada.

The condensed consolidated financial statements include the results of Dycom and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated and the financial statements reflect all adjustments, consisting of only normal recurring accruals which are, in the opinion of management, necessary for a fair presentation of such statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). However, the financial statements do not include all of the financial information and footnotes required by GAAP for complete financial statements. Additionally, the results of operations for the three and nine months ended April 30, 2011 are not necessarily indicative of the results that may be expected for the entire year. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended July 31, 2010 included in the Company’s 2010 Annual Report on Form 10-K, filed with the SEC on September 3, 2010.

On November 19, 2010, the Company acquired certain assets and assumed certain liabilities of Communication Services, Inc. On December 23, 2010, the Company acquired the outstanding common stock of NeoCom Solutions, Inc. The operating results of the businesses acquired by the Company are included in the accompanying condensed consolidated financial statements from their respective acquisition dates.

Debt issuance and debt repurchases– On January 21, 2011, Dycom Investments, Inc., a subsidiary of the Company, issued $187.5 million aggregate principal amount of 7.125% senior subordinated notes due 2021 (the “2021 Notes”) in a private placement. A portion of the net proceeds was used (1) to fund the Company’s purchase in January 2011 of $86.96 million aggregate principal amount of its outstanding 8.125% senior subordinated notes due 2015 (the “2015 Notes”) at a price of 104.313% of the principal amount pursuant to a tender offer for any and all of its $135.35 million in aggregate principal amount of outstanding 2015 Notes, and (2) to fund the Company’s redemption in February 2011 of the remaining $48.39 million outstanding aggregate principal amount of 2015 Notes at a price of 104.063% of the principal amount. As a result, during the three and nine months ended April 30, 2011, the Company recognized debt extinguishment costs of $2.0 million and $6.0 million, respectively, comprised of tender premiums and legal and professional fees associated with the tender offer and redemption and $0.6 million and $2.3 million, respectively, for the write-off of deferred debt issuance costs related to the transaction (see Note 10).

Accounting Period – The Company uses a fiscal year ending on the last Saturday in July. Fiscal 2011 will consist of 52 weeks, while fiscal 2010 consisted of 53 weeks, with the fourth quarter having 14 weeks of operations.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For the Company, key estimates include: recognition of revenue for costs and estimated earnings in excess of billings, purchase price allocations, the fair value of goodwill, the assessment of impairment of intangibles and other long-lived assets, income taxes, accrued insurance claims, asset lives used in computing depreciation and amortization, allowance for doubtful accounts, stock-based compensation expense for performance-based stock awards, and accruals for contingencies, including legal matters. At the time they are made, the Company believes that such estimates are fair when considered in conjunction with the condensed consolidated financial position and results of operations taken as a whole. However, actual results could differ from those estimates and such differences may be material to the financial statements.

Restricted Cash — As of April 30, 2011 and July 31, 2010, the Company had approximately $4.7 million and $4.9 million, respectively, in restricted cash which is held as collateral in support of the Company’s insurance obligations. Restricted cash is included in other current assets and other assets in the condensed consolidated balance sheets and changes in restricted cash are reported in cash flows used in investing activities in the condensed consolidated statements of cash flows.

Comprehensive Income – During the three and nine months ended April 30, 2011 and April 24, 2010, the Company did not have any material changes in its equity resulting from non-owner sources. Accordingly, comprehensive income approximated the net income amounts presented for the respective period’s operations.

Fair Value of Financial Instruments — Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures (“ASC Topic 820”), defines fair value, establishes a measurement framework and expands disclosure requirements. The Company adopted ASC Topic 820 for financial assets and liabilities on the first day of fiscal 2009 and adopted non-recurring measurements for non-financial assets and liabilities on the first day of fiscal 2010. The adoption of ASC Topic 820 did not have an impact on the Company’s condensed consolidated financial statements. ASC Topic 820 requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories: (1) Level 1 - Quoted market prices in active markets for identical assets or liabilities; (2) Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data; and (3) Level 3 - Unobservable inputs not corroborated by market data which require the reporting entity’s own assumptions. The Company’s financial instruments consist primarily of cash and equivalents, restricted cash, accounts receivable, income taxes receivable and payable, accounts payable and accrued expenses, and long-term debt. The carrying amounts of these instruments approximate their fair value due to the short maturity of these items, except for the Company’s outstanding 2021 Notes. The Company determined that the fair value of the 2021 Notes at April 30, 2011 was $193.1 million based on quoted market prices, which reflect Level 1 inputs, as compared to a carrying value of $187.5 million.

Segment Information — The Company operates in one reportable segment as a specialty contractor, providing engineering, construction, maintenance and installation services to telecommunications providers, underground facility locating services to various utilities including telecommunications providers, and other construction and maintenance services to electric and gas utilities and others. All of the Company’s operating segments have been aggregated into one reporting segment due to their similar economic characteristics, nature of services and production processes, type of customers, and service distribution methods. The Company’s services are provided by its various subsidiaries throughout the United States and, on a limited basis, in Canada. One of the Company’s operating segments earned revenues from contracts in Canada of approximately $1.0 million and $4.2 million during the three and nine months ended April 30, 2011, respectively, and $1.5 million and $5.0 million during the three and nine months ended April 24, 2010, respectively. The Company had no material long-lived assets in the Canadian operations at April 30, 2011 or July 31, 2010.

Recently Issued Accounting Pronouncements – In December 2010, the FASB issued Accounting Standards Update No. 2010-29, Business Combinations (Topic 805) (“ASU 2010-29”). ASU 2010-29 is intended to address diversity in practice regarding pro-forma revenue and earnings disclosure requirements for business combinations. ASU 2010-29 specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro-forma disclosures to include a description of the nature and amount of material, non-recurring pro-forma adjustments directly attributable to the business combination included in the reported pro-forma revenue and earnings. The amendments affect any public entity as defined by ASU 2010-29 that enters into business combinations that are material on an individual or aggregate basis. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period after December 15, 2010. The adoption of this guidance is not expected to have a material effect on the Company's condensed consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28, Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts ("ASU 2010-28"). ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The amendments in ASU 2010-28 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of this guidance is not expected to have a material effect on the Company's condensed consolidated financial statements.

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2. Computation of Earnings Per Common Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding during the period, excluding unvested restricted share units. Diluted earnings per common share includes the weighted average common shares outstanding for the period plus dilutive potential common shares, including unvested time vesting and certain performance vesting restricted share units. Performance vesting restricted share units are only included in diluted earnings per common share calculations for the period if all the necessary performance conditions are satisfied and their impact is not anti-dilutive. Common stock equivalents related to stock options are excluded from diluted earnings per common share calculations if their effect would be anti-dilutive. The following is a reconciliation of the numerator and denominator of the basic and diluted earnings per common share computation as required by FASB ASC Topic 260.

	For the Three Months Ended		For the Nine Months Ended	
	April 30, 2011	April 24, 2010	April 30, 2011	April 24, 2010
	(Dollars in thousands, except per share amounts)			
Net income available to common stockholders (numerator)	$1,489	$1,648	$3,142	$1,206
Weighted-average number of common shares (denominator)	34,706,822	39,021,043	35,800,175	39,028,637
Basic earnings per common share	$0.04	$0.04	$0.09	$0.03
Weighted-average number of common shares	34,706,822	39,021,043	35,800,175	39,028,637
Potential common stock arising from stock options, and unvested restricted share units	616,845	33,400	330,410	73,975
Total shares-diluted (denominator)	35,323,667	39,054,443	36,130,585	39,102,612
Diluted earnings per common share	$0.04	$0.04	$0.09	$0.03
Antidilutive weighted shares excluded from the calculation of earnings per share	2,051,652	3,618,970	2,054,837	2,547,418

3. Acquisitions

On November 19, 2010, the Company acquired certain assets and assumed certain liabilities of Communication Services, Inc. (“Communication Services”), a provider of outside plant construction services to telecommunications companies in the Southeastern and south central United States. The anticipated benefits of this acquisition include incremental growth opportunities with existing customers and geographic expansion. The purchase price for Communication Services was $9.0 million paid from cash on hand and the assumption of approximately $0.7 million in capital lease obligations. Approximately $0.9 million of the purchase price has been placed in escrow until November 19, 2012 and will be used to satisfy indemnification obligations of the sellers that may arise.

On December 23, 2010, the Company acquired NeoCom Solutions, Inc. ("NeoCom"), based in Woodstock, Georgia. NeoCom provides services to construct, install, optimize and maintain wireless communication facilities in the Southeastern United States. The anticipated benefits of this acquisition include incremental growth opportunities with new and existing customers, including wireless service providers. The purchase price for NeoCom was $27.5 million paid from cash on hand. Approximately $2.8 million of the purchase price has been placed in escrow until June 23, 2012 and will be used to satisfy indemnification obligations of the seller that may arise.

The Communication Services and NeoCom acquisitions were not material to the Company. Approximately $0.2 million of transaction costs directly related to the acquisitions were incurred and are included in general and administrative expenses in the Company's fiscal 2011 condensed consolidated statement of operations for the nine months ended April 30, 2011.

4. Accounts Receivable

Accounts receivable consists of the following:

	April 30, 2011	July 31, 2010