MYR GROUP INC.
Form 10-Q
August 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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: 1-08325

MYR GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-3158643**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1701 Golf Road, Suite 3-1012 **Rolling Meadows, IL** (Address of principal executive offices)	**60008-4210** (Zip Code)

(847) 290-1891

(Registrant s telephone number, including area code)

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 o

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 x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 25, 2014, there were 21,333,226 outstanding shares of the registrant s $0.01 par value common stock.

WEBSITE ACCESS TO COMPANY S REPORTS

MYR Group Inc. s internet website address is www.myrgroup.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) will be available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

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Throughout this report, references to MYR Group, the Company, we, us and our refer to MYR Group Inc. and its consolidated subsidiaries, except as otherwise indicated or as the context otherwise requires.

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MYR GROUP INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 54,552	$ 76,454
Accounts receivable, net of allowances of $1,168 and $1,132, respectively	177,022	173,468
Costs and estimated earnings in excess of billings on uncompleted contracts	56,236	40,519
Deferred income tax assets	14,591	14,550
Receivable for insurance claims in excess of deductibles	12,739	11,389
Refundable income taxes	1,970	1,286
Other current assets	5,551	6,283
Total current assets	322,661	323,949
Property and equipment, net of accumulated depreciation of $131,506 and $115,679, respectively	152,644	142,931
Goodwill	46,599	46,599
Intangible assets, net of accumulated amortization of $3,060 and $2,893, respectively	10,032	10,199
Other assets	1,524	1,744
Total assets	$ 533,460	$ 525,422
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 73,307	$ 79,605
Billings in excess of costs and estimated earnings on uncompleted contracts	53,400	52,952
Accrued self insurance	40,269	39,111
Other current liabilities	30,360	32,711
Total current liabilities	197,336	204,379
Deferred income tax liabilities	23,719	23,719
Other liabilities	1,291	1,233
Total liabilities	222,346	229,331
Commitments and contingencies		
Stockholders equity:		
Preferred stock $0.01 par value per share; 4,000,000 authorized shares; none issued and outstanding at June 30, 2014 and December 31, 2013		
Common stock $0.01 par value per share; 100,000,000 authorized shares; 21,322,196 and 21,223,076 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	211	210
Additional paid-in capital	162,211	161,202
Retained earnings	148,692	134,679
Total stockholders equity	311,114	296,091
Total liabilities and stockholders equity	$ 533,460	$ 525,422

The accompanying notes are an integral part of these consolidated financial statements.

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MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Contract revenues	$ 228,877	$ 213,916	$ 444,515	$ 415,258
Contract costs	198,349	182,663	386,907	356,702
Gross profit	30,528	31,253	57,608	58,556
Selling, general and administrative expenses	18,110	16,144	34,985	32,151
Amortization of intangible assets	83	83	167	167
Gain on sale of property and equipment	(60)	(336)	(71)	(514)
Income from operations	12,395	15,362	22,527	26,752
Other income (expense)				
Interest income	30		33	3
Interest expense	(177)	(179)	(355)	(362)
Other, net	108	(22)	162	(17)
Income before provision for income taxes	12,356	15,161	22,367	26,376
Income tax expense	4,615	5,699	8,354	9,954
Net income	$ 7,741	$ 9,462	$ 14,013	$ 16,422
Income per common share:				
Basic	$ 0.36	$ 0.45	$ 0.66	$ 0.79
Diluted	$ 0.36	$ 0.44	$ 0.64	$ 0.76
Weighted average number of common shares and potential common shares outstanding:				
Basic	21,115	20,785	21,108	20,723
Diluted	21,631	21,397	21,600	21,383

The accompanying notes are an integral part of these consolidated financial statements.

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MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six months ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 14,013	$ 16,422
Adjustments to reconcile net income to net cash flows provided by operating activities		
Depreciation and amortization of property and equipment	16,103	13,945
Amortization of intangible assets	167	167
Stock-based compensation expense	2,197	1,658
Deferred income taxes	(41)	
Gain on sale of property and equipment	(71)	(514)
Other non-cash items	47	75
Changes in operating assets and liabilities		
Accounts receivable, net	(3,554)	(10,459)
Costs and estimated earnings in excess of billings on uncompleted contracts	(15,717)	24,937
Receivable for insurance claims in excess of deductibles	(1,350)	102
Other assets	206	1,081
Accounts payable	(6,991)	(20,781)
Billings in excess of costs and estimated earnings on uncompleted contracts	448	16,399
Accrued self insurance	1,158	88
Other liabilities	(2,318)	(5,150)
Net cash flows provided by operating activities	4,297	37,970
Cash flows from investing activities:		
Proceeds from sale of property and equipment	182	546
Purchases of property and equipment	(25,234)	(21,918)
Net cash flows used in investing activities	(25,052)	(21,372)
Cash flows from financing activities:		
Proceeds from exercise of stock options	135	1,045
Excess tax benefit from stock-based awards	230	628
Repurchase of common shares	(1,550)	(523)
Other financing activities	38	56
Net cash flows provided by (used in) financing activities	(1,147)	1,206
Net increase (decrease) in cash and cash equivalents	(21,902)	17,804
Cash and cash equivalents:		
Beginning of period	76,454	19,825
End of period	$ 54,552	$ 37,629

The accompanying notes are an integral part of these consolidated financial statements.

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Business and Basis of Presentation

Organization

MYR Group Inc. (the Company) is a holding company of specialty electrical construction service providers that conducts operations through a number of wholly-owned subsidiaries including: The L. E. Myers Co., a Delaware corporation; Hawkeye Construction, Inc., an Oregon corporation; Harlan Electric Company, a Michigan corporation; Sturgeon Electric Company, Inc., a Michigan corporation; MYR Transmission Services, Inc., a Delaware corporation; and Great Southwestern Construction, Inc., a Colorado corporation.

Business

The Company performs construction services in two business segments: Transmission and Distribution (T&D), and Commercial and Industrial (C&I). T&D customers include electric utilities, cooperatives, municipalities and private developers. The Company provides a broad range of services throughout the United States, which include design, engineering, procurement, construction, upgrade, maintenance and repair services, with a particular focus on construction, maintenance and repair. The Company also provides C&I electrical contracting services to property owners and general contractors in the western United States.

Interim Consolidated Financial Information

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial reporting and pursuant to the rules and regulations of the SEC. Certain information and note disclosures typically included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with these rules and regulations. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the financial condition of the Company as of June 30, 2014, the results of operations for the three and six months ended June 30, 2014 and 2013 and the cash flows for the six months ended June 30, 2014 and 2013. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results for the full year or the results for any future periods. The consolidated balance sheet as of December 31, 2013 has been derived from the audited financial statements as of that date. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2013, included in the Company s annual report on Form 10-K.

Reclassification

Certain reclassifications were made to prior year amounts to conform to the current year presentation. The Company reclassified shares withheld to satisfy employee tax obligations upon vesting of restricted and performance shares to repurchase of common shares on the condensed consolidated statements of cash flows for the six months ended June 30, 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the period reported. Actual results could differ from those estimates. The most significant estimates are related to the completion percentages on our contracts, insurance reserves, accounts receivable reserves, the recoverability of goodwill and intangibles and estimates surrounding stock-based compensation.

The percentage of completion method of accounting requires the Company to make estimates about the expected revenue and gross profit on each of its contracts in process. The estimates are reviewed and, as needed, revised quarterly. During the three and six months ended June 30, 2014, changes in estimates pertaining to several large transmission projects resulted in increased gross margins of 1.9% and 2.2%, respectively. The Company s income from operations was impacted by $4.3 million and $9.7 million, respectively, due to the changes in estimated gross profit that occurred during those periods. These changes in estimates resulted in increases of $2.7 million and $6.1 million in net income and $0.13 and $0.28 in diluted earnings per common share during the three and six months ended June 30, 2014, respectively. During the three and six months ended June 30, 2013, changes in estimates pertaining to

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several large transmission projects resulted in increased gross margins of 1.3% and 1.0%, respectively. The Company s income from operations was impacted by $2.7 million and $4.0 million, respectively, due to the changes in estimated gross profit that occurred during those periods. These changes in estimates resulted in increases of $1.7 million and $2.5 million in net income and $0.08 and $0.12 in diluted earnings per common share during the three and six months ended June 30, 2013, respectively.

Recent Accounting Pronouncements

Changes to U.S. GAAP are typically established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB s Accounting Standards Codification (ASC). The Company considers the applicability and impact of all ASUs. The Company, based on its assessment, determined that any recently issued or proposed ASUs not listed below are either not applicable to the Company or will have minimal impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments under this pronouncement may change how an entity recognizes revenue from contracts it enters to transfer goods, services or nonfinancial assets to its customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with the customer; Step 2: Identify the performance obligations in the contract; Step 3: Determine the transaction price. Step 4: Allocate the transaction price to the performance obligations in the contract; Step 5: Recognize revenue when, or as, the entity satisfies the performance obligations. In addition, the amendments require expanded disclosure to enable the users of the financial statements to understand the nature, timing and uncertainty of revenue and cash flow arising from contracts with customers. The update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016. The Company is evaluating the impact of this pronouncement on its policies and procedures pertaining to recognition of revenue from contracts with customers, the pronouncement s expanded disclosure requirements and the impact on the Company s financial statements.

Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date*. This update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. Obligations within the scope of this update include debt arrangements, other contractual obligations and settled litigation and judicial rulings. The Company adopted this ASU in January 2014 and there was no impact on its financial statements.

2. Fair Value Measurements

The Company uses the three-tier hierarchy of fair value measurement, which prioritizes the inputs used in measuring fair value based upon their degree of availability in external active markets. These tiers include: Level 1 (the highest priority), defined as observable inputs, such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 (the lowest priority), defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2014 and December 31, 2013, the carrying value of the Company s cash and cash equivalents approximated fair value based on Level 1 inputs.

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3. Contracts in Process

The net asset (liability) position for contracts in process consisted of the following:

(In thousands)		June 30, 2014		December 31, 2013
Costs and estimated earnings on uncompleted contracts	$	1,824,294	$	1,748,204
Less: Billings to date		1,821,458		1,760,637
	$	2,836	$	(12,433)

The net asset (liability) position for contracts in process included in the accompanying consolidated balance sheets was as follows:

(In thousands)		June 30, 2014		December 31, 2013
Costs and estimated earnings in excess of billings on uncompleted contracts	$	56,236	$	40,519
Billings in excess of costs and estimated earnings on uncompleted contracts		(53,400)		(52,952)
	$	2,836	$	(12,433)

4. Income Taxes

The difference between the U.S. federal statutory tax rate of 35% and the Company s effective tax rates for the three and six months ended June 30, 2014 and 2013 was principally due to state income taxes.

The Company had unrecognized tax benefits of approximately $0.9 million and $0.8 million as of June 30, 2014 and December 31, 2013, respectively, which were included in other liabilities in the accompanying, consolidated balance sheets.

The Company s policy is to recognize interest and penalties related to income tax liabilities as a component of income tax expense in the consolidated statements of operations. The amount of interest and penalties charged to income tax expense because of the unrecognized tax benefits was not material for the three months and six months ended June 30, 2014 and 2013.

The Company is subject to taxation in various jurisdictions. The Company is subject to examination by the Internal Revenue Service (IRS) for the open tax years (2011, 2012 and 2013) and by various state authorities for the years 2009 through 2013.

5. Commitments and Contingencies

Letters of Credit

As of June 30, 2014 and December 31, 2013, the Company had irrevocable standby letters of credit outstanding of approximately $18.4 million, including one for $17.5 million related to the Company s payment obligation under its insurance programs and another for approximately $0.9 million related to contract performance obligations.

Leases

The Company leases real estate, construction equipment and office equipment under operating leases with remaining terms ranging from one to six years. As of June 30, 2014, future minimum lease payments for operating leases were as follows: $1.0 million for the remainder of 2014, $1.1 million for 2015, $0.5 million for 2016, $0.3 million for 2017, $0.2 million for 2018 and $0.2 million thereafter.

Purchase Commitments for Construction Equipment

As of June 30, 2014, the Company had approximately $5.5 million in outstanding purchase orders for certain construction equipment with cash outlay requirements scheduled to occur over the next three months.

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Insurance and Claims Accruals

The Company carries insurance policies, which are subject to certain deductibles, for workers compensation, general liability, automobile liability and other coverages. The deductible for each line of coverage is $1.0 million, except for certain of the Company s health insurance benefit plans which are subject to a $0.1 million deductible for qualified individuals. Losses up to the stop loss amounts are accrued based upon the Company s estimates of the ultimate liability for claims reported and an estimate of claims incurred but not yet reported.

The insurance and claims accruals are based on known facts, actuarial estimates and historical trends. While recorded accruals are based on the ultimate liability, which includes amounts in excess of the stop loss deductible, a corresponding receivable for amounts in excess of the stop loss deductible is included in current assets in the consolidated balance sheets.

Performance and Payment Bonds

In certain circumstances, the Company is required to provide performance and payment bonds in connection with its future performance on certain contractual commitments. The Company has indemnified its surety for any expenses paid out under these bonds. As of June 30, 2014, an aggregate of approximately $937.8 million in original face amount of bonds issued by the surety were outstanding. Our estimated remaining cost to complete these bonded projects was approximately $171.5 million as of June 30, 2014.

Indemnities