DYCOM INDUSTRIES INC
Form 10-Q
May 22, 2009

Table of Contents

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

(Mark One)

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

For the quarterly period ended April 25, 2009

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 0-5423
DYCOM INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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 þ 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 o 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 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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock	Outstanding shares May 20, 2009
Common stock, par value of $0.33 1/3	38,998,348

Dycom Industries, Inc.
Table of Contents

Table of Contents

Part 1 FINANCIAL INFORMATION

Item 1. Financial Statements

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

	April 25, 2009	July 26, 2008
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 78,762	$ 22,068
Accounts receivable, net	108,239	146,420
Costs and estimated earnings in excess of billings	63,853	94,270
Deferred tax assets, net	15,695	19,347
Income taxes receivable	11,557	6,014
Inventories	9,153	8,994
Other current assets	10,018	7,301
Current assets of discontinued operations	164	667
Total current assets	297,441	305,081
Property and equipment, net	148,186	170,479
Goodwill	157,851	252,374
Intangible assets, net	57,695	62,860
Other	10,711	10,478
Total non-current assets	374,443	496,191
TOTAL	$ 671,884	$ 801,272
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 24,542	$ 29,835
Current portion of debt	1,394	2,306
Billings in excess of costs and estimated earnings	512	483
Accrued insurance claims	28,743	29,834
Other accrued liabilities	41,360	66,275
Current liabilities of discontinued operations	537	2,731
Total current liabilities	97,088	131,464
LONG-TERM DEBT	135,487	151,049
ACCRUED INSURANCE CLAIMS	30,463	37,175
DEFERRED TAX LIABILITIES, net non-current	21,595	31,750
OTHER LIABILITIES	4,106	5,314
NON-CURRENT LIABILITIES OF DISCONTINUED OPERATIONS	388	427

Total liabilities	289,127	357,179
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: 38,995,854 and 39,352,020 issued and outstanding, respectively	12,998	13,117
Additional paid-in capital	170,991	172,167
Accumulated other comprehensive (loss) income	(48)	186
Retained earnings	198,816	258,623
Total stockholders equity	382,757	444,093
TOTAL	$ 671,884	$ 801,272

See notes to the condensed consolidated financial statements.

Table of Contents

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

	For the Three Months Ended April 25, 2009	April 26, 2008
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$ 257,719	$ 293,440
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	206,733	239,598
General and administrative (including stock-based compensation expense of $0.9 million and $1.4 million, respectively)	24,276	24,969
Depreciation and amortization	16,163	17,301
Total	247,172	281,868
Interest income	60	238
Interest expense	(3,162)	(3,110)
Other income, net	3,566	2,670
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	11,011	11,370
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	(2,132)	(442)
Deferred	5,574	4,119
Total	3,442	3,677
INCOME FROM CONTINUING OPERATIONS	7,569	7,693
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	28	(807)
NET INCOME	$ 7,597	$ 6,886
EARNINGS PER COMMON SHARE BASIC:		
Income from continuing operations	$ 0.19	$ 0.19
Income (loss) from discontinued operations		(0.02)

Net income	$	0.19	$	0.17
EARNINGS PER COMMON SHARE DILUTED:				
Income from continuing operations	$	0.19	$	0.19
Income (loss) from discontinued operations				(0.02)
Net income	$	0.19	$	0.17
SHARES USED IN COMPUTING EARNINGS (LOSS) PER COMMON SHARE:				
Basic		39,330,308		40,436,212
Diluted		39,346,102		40,486,765

See notes to the condensed consolidated financial statements.

Table of Contents

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

	For the Nine Months Ended			
	April 25, 2009		April 26, 2008	
	(Dollars in thousands, except per share amounts)			
REVENUES:				
Contract revenues	$	837,209	$	907,869
EXPENSES:				
Costs of earned revenues, excluding depreciation and amortization		681,239		748,816
General and administrative (including stock-based compensation expense of $2.8 million and $4.6 million, respectively)		73,350		72,892
Depreciation and amortization		49,592		50,258
Goodwill impairment charge		94,429		
Total		898,610		871,966
Interest income		234		619
Interest expense		(11,313)		(10,231)
Other income, net		5,799		5,040
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		(66,681)		31,331
PROVISION (BENEFIT) FOR INCOME TAXES:				
Current		(379)		12,370
Deferred		(6,503)		(855)
Total		(6,882)		11,515
INCOME (LOSS) FROM CONTINUING OPERATIONS		(59,799)		19,816
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX		(9)		(1,228)
NET INCOME (LOSS)	$	(59,808)	$	18,588
EARNINGS (LOSS) PER COMMON SHARE BASIC:				
Income (loss) from continuing operations	$	(1.52)	$	0.49
Loss from discontinued operations				(0.03)

Net income (loss)	$	(1.52)	$	0.46
EARNINGS (LOSS) PER COMMON SHARE DILUTED:				
Income (loss) from continuing operations	$	(1.52)	$	0.48
Loss from discontinued operations				(0.03)
Net income (loss)	$	(1.52)	$	0.45
SHARES USED IN COMPUTING EARNINGS (LOSS) PER COMMON SHARE:				
Basic		39,343,834		40,651,236
Diluted		39,343,834		40,865,349

See notes to the condensed consolidated financial statements.

5

Table of Contents

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

	For the Nine Months Ended April 25, 2009	April 26, 2008
	(Dollars in thousands)	
OPERATING ACTIVITIES:		
Net income (loss)	$ (59,808)	$ 18,588
Adjustments to reconcile net cash inflow from operating activities:		
Depreciation and amortization	49,592	50,258
Bad debts expense (recovery), net	200	(412)
Gain on sale of fixed assets	(3,306)	(4,786)
Gain on extinguishment of debt, net	(3,027)	
Write-off of deferred financing costs	551	
Deferred income tax benefit	(5,972)	(844)
Stock-based compensation expense	2,775	4,584
Amortization of debt issuance costs	727	608
Goodwill impairment charge	94,429	
Excess tax benefit from share-based awards		(479)
Change in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable, net	37,978	19,514
Costs and estimated earnings in excess of billings, net	30,445	10,529
Other current assets and inventory	(3,049)	(2,941)
Other assets	826	973
Income taxes receivable	(6,468)	
Increase (decrease) in operating liabilities:		
Accounts payable	(5,465)	(533)
Accrued insurance claims and other liabilities	(34,300)	(2,037)
Income taxes payable		(6,184)
Net cash provided by operating activities	96,128	86,838
INVESTING ACTIVITIES:		
Changes in restricted cash	(61)	(299)
Capital expenditures	(25,625)	(59,992)
Proceeds from sale of assets	4,349	6,296
Proceeds from acquisition indemnification claims		522
Net cash used in investing activities	(21,337)	(53,473)
FINANCING ACTIVITIES:		
Proceeds from long-term debt	30,000	15,000
Principal payments on long-term debt	(31,824)	(27,762)
Purchase of senior subordinated notes	(11,292)	
Debt issuance costs	(1,837)	
Repurchases of common stock	(2,915)	(14,073)

Excess tax benefit from share-based awards		479
Restricted stock tax withholdings	(246)	(2,145)
Exercise of stock options and other	17	1,314
Net cash used in financing activities	(18,097)	(27,187)
Net increase in cash and equivalents	56,694	6,178
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	22,068	18,862
CASH AND EQUIVALENTS AT END OF PERIOD	$ 78,762	$ 25,040
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid during the period for:		
Interest	$ 14,021	$ 12,515
Income taxes	$ 6,885	$ 18,346
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	$ 272	$ 3,953

See notes to the condensed consolidated financial statements.

Table of Contents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. 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 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. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The condensed consolidated financial statements do not include all of the financial information and footnotes required by GAAP for complete financial statements. The condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring accruals which are, in the opinion of management, necessary for a fair presentation of such statements. The results of operations for the three and nine months ended April 25, 2009 are not necessarily indicative of the results that may be expected for the entire year. For a fuller understanding of the Company and its financial statements, the Company recommends reading these condensed consolidated financial statements in conjunction with the Company s audited financial statements for the year ended July 26, 2008 included in the Company s 2008 Annual Report on Form 10-K, filed with the SEC on September 4, 2008.

The Company has determined that goodwill and non-current deferred tax liabilities, net from certain prior acquisitions were understated by $12.2 million on the July 26, 2008 consolidated balance sheet. These amounts have been corrected on the July 26, 2008 consolidated balance sheet and in the related footnote disclosures. The Company has determined the impact of the above was immaterial to its consolidated balance sheet for all prior periods effected. The correction had no effect on the Company s net income or cash flows included within previously issued financial statements. The Company s fiscal 2009 Form 10-K will be adjusted to reflect the corrected goodwill and non-current deferred tax liabilities, net balances as of July 26, 2008.

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, the fair value of goodwill and intangible assets, income taxes, accrued insurance claims, asset lives used in computing depreciation and amortization, allowance for doubtful accounts, compensation expense for performance-based stock awards, and the outcome of 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 25, 2009 and July 26, 2008, the Company had approximately $4.9 million and $4.8 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.

Goodwill and Intangible Assets The Company accounts for goodwill in accordance with Statements of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). The Company s reporting units and related indefinite-lived intangible assets are tested annually during the fourth fiscal quarter of each year in accordance with SFAS No. 142 in order to determine whether their carrying value exceeds their fair value. Should this be the case, the value of a reporting unit s goodwill or indefinite-lived intangible assets may be impaired and written down. Goodwill and indefinite-lived intangible assets are also tested for impairment on an interim basis if an event occurs or circumstances change between annual tests that would more likely than not reduce their fair value below carrying value. If the Company determines the fair value of goodwill or other indefinite-lived intangible assets is less than their carrying value, an impairment loss is recognized in an amount equal to the difference. Impairment losses, if any, are reflected in operating income or loss in the condensed consolidated statements of operations.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the Company reviews finite-lived intangible assets for impairment whenever an event occurs or circumstances change which indicates that the carrying amount of such assets may not be fully recoverable. Recoverability is determined based on an estimate of undiscounted future cash flows resulting from the use of an asset and its eventual disposition. An impairment loss is measured by comparing the fair value of the asset to its carrying value. If the Company determines the fair value of an asset is less than the carrying value, an impairment loss is incurred in an amount equal to the difference. Impairment losses, if any, are reflected in operating income or loss in the condensed consolidated statements of operations.

The Company uses judgment in assessing if goodwill and intangible assets are impaired. Estimates of fair value are based on the Company s projection of revenues, operating costs, and cash flows considering historical and anticipated future results, general economic and market conditions, as well as the impact of planned business or operational strategies. To measure fair value, the Company employs a combination of present value techniques which reflect market factors. Changes in the Company s judgments and projections could result in significantly different estimates of fair value resulting in additional impairments of goodwill and other intangible assets. See Note 7 for further discussion regarding the Company s goodwill and intangible assets.

Income Taxes. The Company accounts for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. See Note 11 for further discussion regarding the Company s income taxes.

Comprehensive Income (Loss) During the three and nine months ended April 25, 2009 and April 26, 2008, the Company did not have any material changes in its equity resulting from non-owner sources. Accordingly, comprehensive income (loss) approximated the net income (loss) amounts presented for the respective periods in the accompanying condensed consolidated statements of operations.

Multiemployer Defined Benefit Pension Plan A wholly-owned subsidiary of the Company participates in a multiemployer defined benefit pension plan that covers certain of its employees. This subsidiary makes periodic contributions to the plan to meet its benefit obligations. During the three months ended April 25, 2009 and April 26, 2008, this subsidiary contributed approximately $1.2 million and $1.1 million to the plan, respectively. During the nine months ended April 25, 2009 and April 26, 2008, this subsidiary contributed approximately $4.2 million and $2.9 million to the plan, respectively.

Recently Issued Accounting Standards The Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157) on July 27, 2008, the first day of fiscal 2009. SFAS No. 157 defines fair value, establishes a measurement framework and expands disclosure requirements. It does not require any new fair value measurements. SFAS No. 157 applies to existing accounting pronouncements that require or permit fair value measurement as the relevant measurement attribute. The adoption of SFAS No. 157 for financial assets and liabilities did not have an impact on the Company s condensed consolidated financial statements. The effective date of the provisions of SFAS No. 157 for non-financial assets and liabilities, except for items recognized at fair value on a recurring basis, was deferred by FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 and is effective for the Company beginning fiscal 2010. The Company is currently evaluating the impact of SFAS No. 157 for non-financial assets and liabilities measured at fair value on a nonrecurring basis.

The Company also adopted SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), on July 27, 2008, the first day of fiscal 2009. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. As of April 25, 2009, the Company has not elected to apply fair value measurements for any of its financial instruments or other assets and liabilities.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (EITF 03-6-1). EITF 03-6-1 addresses whether unvested share-based payment awards with rights to receive dividends or dividend equivalents should be considered as participating securities for the purposes of applying the two-class method of calculating earnings per share (EPS) under SFAS No. 128, Earnings per Share. The FASB staff concluded that unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents are participating securities, and thus, should be included in the two-class method of computing EPS. EITF 03-6-1 is effective for the Company beginning in fiscal 2010 and also requires that all prior-period EPS data presented be adjusted retrospectively. The Company is currently evaluating the impact of EITF 03-6-1.

In April 2008, the FASB issued FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FSP 142-3 will be effective for the Company in fiscal 2010. The Company is currently evaluating its impact.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) retains the fundamental acquisition method of accounting established in SFAS No. 141; however, among other things, SFAS No. 141(R) requires fair value measurement of consideration and contingent consideration, expense recognition for transaction costs and certain integration costs, and adjustments to income tax expense for changes in an acquirer s existing valuation allowances or uncertain tax positions that result from the business combination. In April 2009, the FASB issued Financial Staff Position No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies (FSP 141(R)-1). FSP 141(R)-1 amends and clarifies SFAS No. 141(R) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business

Table of Contents

combinations. SFAS No. 141(R) and FSP 141(R)-1 will be effective for the Company for any acquisition completed subsequent to July 25, 2009.

2. Discontinued Operations

During fiscal 2007, a wholly-owned subsidiary of the Company, Apex Digital, LLC (Apex) notified its primary customer of its intention to cease performing installation services in accordance with its contractual rights. Effective December 2006, this customer, a satellite broadcast provider, transitioned its installation service requirements to others and Apex ceased providing these services. As a result, the Company has discontinued the operations of Apex and presented its results separately in the accompanying condensed consolidated financial statements for all periods presented.

The summary comparative financial results of the discontinued operations were as follows:

	For the Three Months Ended		For the Nine Months Ended	
	April 25, 2009	April 26, 2008	April 25, 2009	April 26, 2008
	(Dollars in thousands)			
Contract revenues of discontinued operations	$	$	$	$
Income (loss) of discontinued operations before income taxes	$ 47	$ (1,247)	$ (14)	$ (1,942)
Income (loss) of discontinued operations, net of tax	$ 28	$ (807)	$ (9)	$ (1,228)

In December 2006, two former employees of Apex commenced a lawsuit against the subsidiary in Illinois State Court on behalf of themselves and purporting to represent other similarly situated employees in Illinois. The lawsuit alleged that Apex violated certain minimum wage laws under the Fair Labor Standards Act and related state laws by failing to comply with applicable minimum wage and overtime pay requirements. In June 2008, the subsidiary reached an agreement to settle these claims through a structured mediation process and incurred a charge of approximately $1.2 million for the settlement. While the subsidiary denied the allegations underlying the dispute, it agreed to the mediated settlement to avoid additional legal fees, the uncertainty of a jury trial and the management time that would have been devoted to litigation. In January 2009, the Company paid the outstanding liability related to the settlement.

The following table represents the assets and the liabilities of the discontinued operations:

Table of Contents

	April 25, 2009	July 26, 2008
	(Dollars in thousands)	
Deferred tax assets, net and other current assets	$ 164	$ 667
Current assets of discontinued operations	$ 164	$ 667
Accounts payable	$ 9	$ 129
Accrued liabilities	528	2,602
Total current liabilities of discontinued operations	$ 537	$ 2,731
Other accrued liabilities and deferred taxes	$ 388	$ 427
Non-current liabilities of discontinued operations	$ 388	$ 427

3. Computation of Earnings (Loss) Per Common Share

The following is a reconciliation of the numerator and denominator of the basic and diluted earnings (loss) per common share computation as required by SFAS No. 128. Basic earnings (loss) per common share is computed based on the weighted average number of shares outstanding during the period, excluding unvested restricted shares and restricted share units. Diluted earnings (loss) 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 shares and restricted share units. Performance vesting restricted shares and restricted share units are only included in diluted earnings (loss) 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 (loss) per common share calculations if their effect would be anti-dilutive. For the nine months ended April 25, 2009, all common stock equivalents related to stock options and unvested restricted shares and restricted share units were excluded from the diluted loss per share calculation as their effect would be anti-dilutive due to the Company s net loss for the period.

Table of Contents