DYCOM INDUSTRIES INC
Form 10-Q
May 29, 2007

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 28, 2007

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 of incorporation)	(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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer 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 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 21, 2007
Common stock, par value of $0.33^{1}/3$	40,824,853

Dycom Industries, Inc.

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PART I. FINANCIAL STATEMENTS

Item 1. Financial Statements

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

	April 28, 2007	July 29, 2006
	(dollars in thousands, except per share amounts)	
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 15,966	$ 27,268
Accounts receivable, net	133,020	143,099
Costs and estimated earnings in excess of billings	95,176	79,546
Deferred tax assets, net	14,275	12,793
Inventories	9,119	7,095
Other current assets	10,393	9,311
Current assets of discontinued operations	616	5,196
Total current assets.	278,565	284,308
Property and equipment, net	160,548	125,393
Goodwill	250,480	216,194
Intangible assets, net	71,596	48,939
Other	12,538	13,928
Non-current assets of discontinued operations	33	1,253
Total non-current assets	495,195	405,707
TOTAL	$ 773,760	$ 690,015
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 25,967	$ 25,715
Current portion of debt	3,515	5,169
Billings in excess of costs and estimated earnings	645	397
Accrued self-insured claims	26,992	25,886
Income taxes payable	8,426	4,979
Other accrued liabilities	52,107	44,337
Current liabilities of discontinued operations	1,495	5,311
Total current liabilities	119,147	111,794
LONG-TERM DEBT	179,303	150,009
ACCRUED SELF-INSURED CLAIMS	31,822	30,770
DEFERRED TAX LIABILITIES, net non-current	16,756	6,576
OTHER LIABILITIES	1,318	289
	1,131	1,122

NON-CURRENT LIABILITIES OF DISCONTINUED OPERATIONS		
Total liabilities	349,477	300,560
COMMITMENTS AND CONTINGENCIES, Notes 11, 15 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: 40,810,215 and 40,612,059 issued and outstanding, respectively	13,603	13,536
Additional paid-in capital	185,864	178,760
Accumulated other comprehensive income (loss)	59	(8)
Retained earnings	224,757	197,167
Total stockholders equity	424,283	389,455
TOTAL	$ 773,760	$ 690,015

See notes to 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 28, 2007	April 29, 2006
	(dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$ 291,643	$ 251,077
EXPENSES:		
Costs of earned revenues, excluding depreciation	233,657	204,309
General and administrative (including stock-based compensation expense of $1.4 million and $1.4 million, respectively)	23,712	20,622
Depreciation and amortization	15,327	11,861
Goodwill impairment charge		14,835
Total	272,696	251,627
Interest income	174	327
Interest expense	(3,596)	(3,641)
Other income, net	5,189	2,894
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	20,714	(970)
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	8,157	6,221
Deferred	(13)	(703)
Total	8,144	5,518
INCOME (LOSS) FROM CONTINUING OPERATIONS	12,570	(6,488)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(125)	(15)
NET INCOME (LOSS)	$ 12,445	$ (6,503)
EARNINGS (LOSS) PER COMMON SHARE BASIC:		
Income (loss) from continuing operations	$ 0.31	$ (0.16)

Loss from discontinued operations				
Net income (loss)	$	0.31	$	(0.16)
EARNINGS (LOSS) PER COMMON SHARE DILUTED:				
Income (loss) from continuing operations	$	0.31	$	(0.16)
Loss from discontinued operations				
Net income (loss)	$	0.31	$	(0.16)
SHARES USED IN COMPUTING EARNINGS (LOSS) PER COMMON SHARE:				
Basic		40,469,787		40,163,176
Diluted		40,770,976		40,163,176

See notes to 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 28, 2007	For the Nine Months Ended April 29, 2006
	(dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$ 820,488	$ 741,810
EXPENSES:		
Costs of earned revenues, excluding depreciation	662,193	608,581
General and administrative (including stock-based compensation expense of $4.8 million and $3.3 million, respectively)	66,786	57,999
Depreciation and amortization	41,964	34,678
Goodwill impairment charge		14,835
Total	770,943	716,093
Interest income	801	1,540
Interest expense	(11,306)	(8,515)
Other income, net	6,814	4,219
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	45,854	22,961
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	17,888	15,774
Deferred	222	(715)
Total	18,110	15,059
INCOME FROM CONTINUING OPERATIONS	27,744	7,902
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX	(154)	188
NET INCOME	$ 27,590	$ 8,090
EARNINGS PER COMMON SHARE BASIC:		

Income from continuing operations	$	0.69	$	0.19
Income (loss) from discontinued operations		(0.01)		
Net income	$	0.68	$	0.19
EARNINGS PER COMMON SHARE DILUTED:				
Income from continuing operations	$	0.68	$	0.19
Income (loss) from discontinued operations				
Net income	$	0.68	$	0.19
SHARES USED IN COMPUTING EARNINGS PER COMMON SHARE:				
Basic		40,324,503		42,413,595
Diluted		40,622,116		42,628,492

See notes to condensed consolidated financial statements.

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

	For the Nine Months Ended April 28, 2007	For the Nine Months Ended April 29, 2006
	(dollars in thousands)	
OPERATING ACTIVITIES:		
Net income	$ 27,590	$ 8,090
Adjustments to reconcile net cash inflow from operating activities:		
Depreciation and amortization	42,771	35,791
Bad debts expense (recovery), net	4	(540)
Gain on sale of fixed assets	(6,656)	(3,900)
Deferred income tax benefit	(32)	(1,050)
Stock-based compensation expense	4,764	3,330
Amortization of debt issuance costs	566	494
Goodwill impairment charge		14,835
Excess tax benefit from share-based awards	(131)	(46)
Change in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in operating assets:		
Accounts receivable, net	22,977	21,420
Costs and estimated earnings in excess of billings, net	(14,005)	(1,512)
Income taxes receivable		(5,892)
Other current assets	(359)	(160)
Other assets	1,479	1,844
Increase (decrease) in operating liabilities:		
Accounts payable	(5,363)	(2,610)
Accrued self-insured claims and other liabilities	39	(5,017)
Income taxes payables	4,594	
Net cash provided by operating activities	78,238	65,077
INVESTING ACTIVITIES:		
Restricted cash	(502)	(291)
Capital expenditures	(59,159)	(41,669)
Proceeds from sale of assets	12,375	5,049
Purchase of short-term investments		(79,985)
Proceeds from the sale of short-term investments		79,985
Cash paid for acquisitions, net of cash acquired	(61,812)	(65,391)
Net cash used in investing activities	(109,098)	(102,302)

FINANCING ACTIVITIES:		
Debt issuance costs		(4,763)
Proceeds from long-term debt	105,000	248,000
Principal payments on long-term debt	(87,665)	(91,429)
Repurchases of common stock		(186,235)
Excess tax benefit from share-based awards	131	46
Restricted stock tax withholdings	(1,100)	(232)
Exercise of stock options and other	3,192	2,365
Net cash provided by (used in) financing activities	19,558	(32,248)
Net decrease in cash and equivalents	(11,302)	(69,473)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	27,268	83,062
CASH AND EQUIVALENTS AT END OF PERIOD	$ 15,966	$ 13,589

See notes to condensed consolidated financial statements.

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

	For the Nine Months Ended April 28, 2007	April 29, 2006
	(dollars in thousands)	
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid during the period for:		
Interest	$ 13,796	$ 7,447
Income taxes	$ 14,453	$ 23,460
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	$ 4,028	$ 3,716
Amounts included in accrued liabilities for acquisition costs	$ 90	$
Accrued costs for debt issuance and tender offer included in accounts payable and accrued liabilities at period end	$	$ 41

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. *Basis of Presentation*

Dycom Industries, Inc. (Dycom or the Company) is a leading provider of specialty contracting services throughout the United States. These services include engineering, construction, maintenance and installation services to telecommunications providers, underground 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 are unaudited and include the results of Dycom and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions, including intercompany accounts and transactions of discontinued operations, have been eliminated. The accompanying condensed consolidated balance sheets of the Company and the related condensed consolidated statements of operations and cash flows for the three and nine month periods reflect all adjustments (consisting 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 month periods ended April 28, 2007 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 29, 2006 included in the Company s 2006 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC) on September 8, 2006.

The condensed consolidated balance sheet, condensed consolidated statement of operations, and the related disclosures have been revised for all periods presented to report discontinued operations of one of the Company s wholly-owned subsidiaries. See Note 2 for a further discussion of the discontinued operations.

In December 2005, the Company acquired the outstanding common stock of Prince Telecom Holdings, Inc. (Prince). In September 2006, the Company acquired the outstanding common stock of Cable Express Holding Company (Cable Express). In January 2007, the Company acquired certain assets of a cable television operator. In March 2007, the Company acquired certain assets and assumed certain liabilities of Cavo Communications, Inc. (Cavo). The operating results of the businesses acquired by the Company are included in the accompanying condensed consolidated financial statements from their respective acquisition dates.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 those for the recognition of revenue for costs and estimated earnings in excess of billings, allowance for doubtful accounts, accrued self-insured claims, the fair value of goodwill and intangible assets, asset lives used in computing depreciation and amortization, including amortization of intangible assets, and accounting for income taxes, contingencies and litigation. While 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, actual results could differ from those estimates and such differences may be material to the financial statements.

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Restricted Cash   As of April 28, 2007 and July 29, 2006, the Company had approximately $4.7 million and $4.1 million, respectively, in restricted cash which is held as collateral in support of projected workers   compensation, automobile, employee group health, and general liability 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 from investing activities in the condensed consolidated statements of cash flows.

Multiemployer Defined Benefit Pension Plan   A subsidiary acquired in fiscal 2007 participates in a multiemployer defined benefit pension plan that covers certain of its employees. The subsidiary makes periodic contributions to the plan to meet the benefit obligations. During the three and nine month periods ended April 28, 2007, the subsidiary contributed approximately $0.7 million and $1.7 million, respectively, to the plan.

Comprehensive Income (Loss)   During the three and nine months ended April 28, 2007 and April 29, 2006, the Company did not have any material changes in its equity resulting from non-owner sources and, accordingly, comprehensive income (loss) approximated the net income (loss) amounts presented for the respective periods in the accompanying condensed consolidated statements of operations.

Taxes Collected from Customers   In June 2006, the Financial Accounting Standards Board (FASB) ratified Emerging Issue Task Force (EITF) No. 06-3   *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement.*   EITF No. 06-3 addresses the income statement presentation of any tax collected from customers and remitted to a government authority and provides that the presentation of taxes on either a gross basis or a net basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22   Disclosure of Accounting Policies.   The Company s policy is to present contract revenues net of sales taxes.

Recently Issued Accounting Pronouncements

In June 2006, the FASB issued Interpretation (FIN) No. 48   Accounting for Uncertainty in Income Taxes , an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109,   Accounting for Income Taxes.   FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements by prescribing a recognition threshold and measurement attribute of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48.

In September 2006, the FASB issued SFAS No. 157,   *Fair Value Measurements*   which defines fair value, establishes a measurement framework and expands disclosure requirements. SFAS No. 157 applies to assets and liabilities that are required to be recorded at fair value pursuant to other accounting standards. SFAS No. 157 is effective at the beginning of fiscal 2009 and is not expected to have a material effect on the Company s results of operations, financial position, or cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an Amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This standard requires the recognition of the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability in the year in which they occur. Furthermore, it requires changes in the funded status of these plans to be recognized through accumulated other comprehensive income, as a separate component of stockholders equity, and provides for additional annual disclosure. SFAS No. 158 is effective for fiscal years ending after December 15, 2008 and is not expected to have a material effect on the Company s results of operations, financial position, or cash flows.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). This statement, which is expected to expand fair value measurement, permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 will be effective for the Company at the beginning of fiscal 2009. The Company is currently evaluating the impact of SFAS No. 159.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 requires the combined use of a balance sheet approach and an income statement approach in evaluating whether either approach results in an error that is material in light of relevant quantitative and qualitative factors. The Company must begin to apply the provisions of SAB 108 no later than its fiscal 2007 annual financial statements. The Company is currently evaluating the impact of SAB 108.

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 28, 2007	April 29, 2006	April 28, 2007	April 29, 2006