DYCOM INDUSTRIES INC
Form 10-Q
March 04, 2009

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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 January 24, 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

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 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 x	Accelerated filer o	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

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 March 2, 2009
Common stock, par value of $0.33 1/3	39,445,854

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Part 1 FINANCIAL INFORMATION

Item 1. Financial Statements

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

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 74,037	$ 22,068
Accounts receivable, net	115,146	146,420
Costs and estimated earnings in excess of billings	58,047	94,270
Deferred tax assets, net	16,784	19,347
Income taxes receivable	10,921	6,014
Inventories	9,639	8,994
Other current assets	12,821	7,301
Current assets of discontinued operations	644	667
Total current assets	298,039	305,081
Property and equipment, net	156,801	170,479
Goodwill	157,944	252,374
Intangible assets, net	59,334	62,860
Other	11,605	10,478
Total non-current assets	385,684	496,191
TOTAL	$ 683,723	$ 801,272
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 22,717	$ 29,835
Current portion of debt	1,759	2,306
Billings in excess of costs and estimated earnings	332	483
Accrued insurance claims	32,671	29,834
Other accrued liabilities	44,060	66,275
Current liabilities of discontinued operations	638	2,731
Total current liabilities	102,177	131,464
LONG-TERM DEBT	145,678	151,049
ACCRUED INSURANCE CLAIMS	34,378	37,175
DEFERRED TAX LIABILITIES, net non-current	18,000	31,750

OTHER LIABILITIES	5,830	5,314
NON-CURRENT LIABILITIES OF DISCONTINUED OPERATIONS	473	427
Total liabilities	306,536	357,179
COMMITMENTS AND CONTINGENCIES, Notes 10, 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: 39,443,225 and 39,352,020 issued and outstanding, respectively	13,147	13,117
Additional paid-in capital	172,900	172,167
Accumulated other comprehensive (loss) income	(79)	186
Retained earnings	191,219	258,623
Total stockholders equity	377,187	444,093
TOTAL	$ 683,723	$ 801,272

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	
	January 24, 2009	January 26, 2008
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$ 245,522	$ 284,758
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	205,860	247,906
General and administrative (including stock-based compensation expense of $0.3 million and $1.0 million, respectively)	21,535	22,315
Depreciation and amortization	16,817	16,910
Goodwill impairment charge	94,429	
Total	338,641	287,131
Interest income	40	171
Interest expense	(4,099)	(3,566)
Other income, net	1,832	798
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(95,346)	(4,970)
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	(2,352)	618
Deferred	(15,041)	(2,455)
Total	(17,393)	(1,837)
LOSS FROM CONTINUING OPERATIONS	(77,953)	(3,133)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX		(93)
NET LOSS	$ (77,953)	$ (3,226)
LOSS PER COMMON SHARE BASIC:		
Loss from continuing operations	$ (1.98)	$ (0.08)

Loss from discontinued operations				
Net loss	$	(1.98)	$	(0.08)
LOSS PER COMMON SHARE DILUTED:				
Loss from continuing operations	$	(1.98)	$	(0.08)
Loss from discontinued operations				
Net loss	$	(1.98)	$	(0.08)
SHARES USED IN COMPUTING LOSS PER COMMON SHARE:				
Basic		39,379,470		40,799,664
Diluted		39,379,470		40,799,664

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 Six Months Ended	
	January 24, 2009	January 26, 2008
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$ 579,489	$ 614,430
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	474,506	509,218
General and administrative (including stock-based compensation expense of $1.9 million and $3.2 million, respectively)	49,074	47,923
Depreciation and amortization	33,429	32,957
Goodwill impairment charge	94,429	
Total	651,438	590,098
Interest income	174	381
Interest expense	(8,151)	(7,122)
Other income, net	2,234	2,370
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(77,692)	19,961
PROVISION (BENEFIT) FOR INCOME TAXES:		
Current	1,753	12,811
Deferred	(12,077)	(4,974)
Total	(10,324)	7,837
INCOME (LOSS) FROM CONTINUING OPERATIONS	(67,368)	12,124
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(37)	(422)
NET INCOME (LOSS)	$ (67,405)	$ 11,702
EARNINGS (LOSS) PER COMMON SHARE BASIC:		
Income (loss) from continuing operations	$ (1.71)	$ 0.30
Loss from discontinued operations		(0.01)

Net income (loss)	$	(1.71)	$	0.29
EARNINGS (LOSS) PER COMMON SHARE DILUTED:				
Income (loss) from continuing operations	$	(1.71)	$	0.30
Loss from discontinued operations				(0.01)
Net income (loss)	$	(1.71)	$	0.28
SHARES USED IN COMPUTING EARNINGS (LOSS) PER COMMON SHARE:				
Basic		39,350,611		40,759,267
Diluted		39,350,611		41,073,223

Earnings per share amounts may not add due to rounding.

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 Six Months Ended	
	January 24, 2009	January 26, 2008
	(Dollars in thousands)	
OPERATING ACTIVITIES:		
Net income (loss)	$ (67,405)	$ 11,702
Adjustments to reconcile net cash inflow from operating activities:		
Depreciation and amortization	33,429	32,957
Bad debts expense (recovery), net	23	(118)
Gain on sale of fixed assets	(1,520)	(2,204)
Gain on extinguishment of debt, net	(1,300)	
Write-off of deferred financing costs	551	
Deferred income tax (benefit) provision	(12,077)	(4,963)
Stock-based compensation expense	1,877	3,164
Amortization of debt issuance costs	472	400
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	31,252	18,149
Costs and estimated earnings in excess of billings, net	36,072	16,655
Other current assets and inventory	(6,165)	(6,414)
Other assets	572	723
Income taxes receivable	(4,902)	(5,969)
Increase (decrease) in operating liabilities:		
Accounts payable	(7,141)	(3,144)
Accrued insurance claims and other liabilities	(22,957)	2,431
Net cash provided by operating activities	75,210	62,890
INVESTING ACTIVITIES:		
Restricted cash	(233)	(369)
Capital expenditures	(18,313)	(42,221)
Proceeds from sale of assets	1,840	2,948
Net cash used in investing activities	(16,706)	(39,642)
FINANCING ACTIVITIES:		
Proceeds from long-term debt	30,000	15,000
Principal payments on long-term debt	(31,268)	(26,809)
Purchase of senior subordinated notes	(3,242)	
Debt issuance costs	(1,795)	
Repurchases of common stock		(2,754)

Excess tax benefit from share-based awards		479
Restricted stock tax withholdings	(246)	(2,081)
Exercise of stock options and other	16	1,314
Net cash used in financing activities	(6,535)	(14,851)
Net increase in cash and equivalents	51,969	8,397
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	22,068	18,862
CASH AND EQUIVALENTS AT END OF PERIOD	$ 74,037	$ 27,259
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid during the period for:		
Interest	$ 7,119	$ 6,349
Income taxes	$ 6,581	$ 17,934
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	$ 1,221	$ 2,595

See notes to the condensed consolidated financial statements.

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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 balance sheets of the Company and the related condensed consolidated statements of operations and cash flows for the three and six 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 six months ended January 24, 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 Securities and Exchange Commission (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. The Company has corrected these amounts on the July 26, 2008 consolidated balance sheet and related footnote disclosures. The correction had no effect on the Company s net income or cash flows included within previously issued financial statements. The Company has determined the impact of the above was immaterial to its consolidated balance sheet for all prior periods effected. 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 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: recognition of revenue for costs and estimated earnings in excess of billings, allowance for doubtful accounts, accrued insurance claims, the fair value of goodwill and intangible assets, asset lives used in computing depreciation and amortization, compensation expense for performance-based stock awards, income taxes and the outcome of contingencies, including legal matters. While 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, actual results could differ from those estimates and such differences may be material to the financial statements.

Restricted Cash As of January 24, 2009 and July 26, 2008, the Company had approximately $5.1 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 from 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 asset 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 asset 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 the fair value below the carrying value. If the Company determines the fair value of the goodwill or other identifiable intangible asset 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 the 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 the 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 goodwill and intangible assets for impairment. 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. In order 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 a significantly different estimate of the fair value and could result in an impairment of the goodwill and 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. The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) on July 29, 2007, the first day of fiscal 2008. See Note 11 for further discussion regarding the Company s income taxes.

Comprehensive Income (Loss) During the three and six months ended January 24, 2009 and January 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 amounts presented for the respective periods in the accompanying condensed consolidated statements of operations.

Multiemployer Defined Benefit Pension Plan A wholly-owned subsidiary participates in a multiemployer defined benefit pension plan that covers certain of its employees. The subsidiary makes periodic contributions to the plan to meet its benefit obligations. During the three months ended January 24, 2009 and January 26, 2008, the subsidiary contributed approximately $1.8 million and $0.9 million to the plan, respectively. During the six months ended January 24, 2009 and January 26, 2008, the subsidiary contributed approximately $3.0 million and $1.9 million to the plan, respectively.

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Recently Adopted 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. SFAS No. 157 does not require any new fair value measurements, but applies to existing accounting pronouncements that require or permit fair value measurement as the relevant measurement attribute. The Company has no material financial assets or liabilities, or material non-financial assets and liabilities recognized at fair value on a recurring basis, which were impacted by the adoption of SFAS No. 157 during fiscal 2009. However, the Company does have material non-financial assets and liabilities measured at fair value on a non-recurring basis, including goodwill and other intangible assets. 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. In October 2008 the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market of that Asset is not Active (FSP 157-3). FSP 157-3 clarifies and reiterates certain provisions of existing fair value standards, including the requirements to base fair value on orderly transactions and inputs from management and broker quotes or pricing services. FSP 157-3 was effective upon issuance. The Company is currently evaluating the impact of SFAS No. 157 for non-financial assets and liabilities. 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 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 January 24, 2009, the Company has elected not to apply the fair value option for any of its financial instruments or other assets and liabilities.

Recently Issued Accounting Pronouncements 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 and 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. SFAS No. 141(R) will be effective for the Company for any acquisition completed subsequent to July 25, 2009. The Company is currently evaluating the impact of SFAS No. 141(R).

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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 Six Months Ended	
	January 24, 2009	January 26, 2008	January 24, 2009	January 26, 2008
	(Dollars in thousands)			
Contract revenues of discontinued operations	$	$	$	$
Loss of discontinued operations before income taxes	$	$ (156)	$ (62)	$ (695)
Loss of discontinued operations, net of tax	$	$ (93)	$ (37)	$ (422)

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.

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

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Deferred tax assets, net and other current assets	644	667
Current assets of discontinued operations	$ 644	$ 667
Accounts payable	$ 87	$ 129
Accrued liabilities	551	2,602
Total current liabilities of discontinued operations	$ 638	$ 2,731
Other accrued liabilities and deferred taxes	$ 473	$ 427
Non-current liabilities of discontinued operations	$ 473	$ 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, Earnings Per Share. 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 three and six months ended January 24, 2009 and the three months ended January 26, 2008, 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 periods.

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	For the Three Months Ended		For the Six Months Ended	
	January 24, 2009	January 26, 2008	January 24, 2009	January 26, 2008
	(Dollars in thousands, except per share amounts)			
Numerator:				
Income (loss) from continuing operations	$ (77,953)	$ (3,133)	$ (67,368)	$ 12,124
Loss from discontinued operations, net of tax		(93)	(37)	(422)
Net income (loss)	$ (77,953)	$ (3,226)	$ (67,405)	$ 11,702
Denominator:				
Basic				
Weighted-average number of common shares Basic	39,379,470	40,799,664	39,350,611	40,759,267
Diluted				
Weighted-average number of common shares Basic	39,379,470	40,799,664	39,350,611	40,759,267
Potential common stock arising from stock options, unvested restricted shares and unvested restricted share units				313,956
Weighted-average number of common shares Diluted	39,379,470	40,799,664	39,350,611	41,073,223
Antidilutive weighted shares excluded from the calculation of earnings (loss) per share	3,145,042	2,897,883	2,901,314	1,157,679
EARNINGS (LOSS) PER COMMON SHARE BASIC:				
Income (loss) from continuing operations	$ (1.98)	$ (0.08)	$ (1.71)	$ 0.30
Loss from discontinued operations				(0.01)
Net income (loss)	$ (1.98)	$ (0.08)	$ (1.71)	$ 0.29
EARNINGS (LOSS) PER COMMON SHARE DILUTED:				
Income (loss) from continuing operations	$ (1.98)	$ (0.08)	$ (1.71)	$ 0.30

Loss from discontinued operations								(0.01)
Net income (loss)	$	(1.98)	$	(0.08)	$	(1.71)	$	0.28

Earnings per share amounts may not add due to rounding.

4. Accounts Receivable

Accounts receivable consist of the following:

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Contract billings	$ 112,654	$ 145,346
Retainage	2,138	972
Other receivables	955	871
Total	115,747	147,189
Less: allowance for doubtful accounts	601	769
Accounts receivable, net	$ 115,146	$ 146,420

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The allowance for doubtful accounts changed as follows:

	For the Three Months Ended		For the Six Months Ended	
	January 24, 2009	January 26, 2008	January 24, 2009	January 26, 2008
	(Dollars in thousands)			
Allowance for doubtful accounts at beginning of period	$ 474	$ 979	$ 769	$ 986
Bad debt expense (recovery), net	161	(183)	23	(118)
Amounts (charged against) credited to the allowance	(34)	64	(191)	(8)
Allowance for doubtful accounts at end of period	$ 601	$ 860	$ 601	$ 860

As of January 24, 2009, the Company expected to collect all retainage balances within the next twelve months.

5. Costs and Estimated Earnings on Contracts in Excess of Billings

Costs and estimated earnings in excess of billings, net, consists of the following:

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Costs incurred on contracts in progress	$ 49,231	$ 75,978
Estimated to date earnings	8,816	18,292
Total costs and estimated earnings	58,047	94,270
Less: billings to date	332	483
	$ 57,715	$ 93,787
Included in the accompanying condensed consolidated balance sheets under the captions:		
Costs and estimated earnings in excess of billings	$ 58,047	$ 94,270
Billings in excess of costs and estimated earnings	(332)	(483)
	$ 57,715	$ 93,787

The above amounts include both revenue for services from contracts based on units of delivery and cost-to-cost measures of the percentage of completion method.

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6. Property and Equipment

Property and equipment, including amounts for assets subject to capital leases, consists of the following:

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Land	$ 2,974	$ 2,953
Buildings	9,834	9,751
Leasehold improvements	4,486	3,959
Vehicles	207,442	204,814
Furniture, fixtures, computer equipment and software	46,671	40,339
Equipment and machinery	128,376	133,138
Total	399,783	394,954
Less: accumulated depreciation	242,982	224,475
Property and equipment, net	$ 156,801	$ 170,479

Depreciation expense and repairs and maintenance, including amounts for assets subject to capital leases, were as follows:

	For the Three Months Ended		For the Six Months Ended	
	January 24, 2009	January 26, 2008	January 24, 2009	January 26, 2008
	(Dollars in thousands)			
Depreciation expense	$ 15,116	$ 15,112	$ 29,904	$ 29,329
Repairs and maintenance expense	$ 3,836	$ 5,152	$ 8,315	$ 10,708

7. Goodwill and Intangible Assets

The Company s goodwill and intangible assets consist of the following:

	Useful Life In Years	January 24, 2009	July 26, 2008
		(Dollars in thousands)	
Goodwill	N/A	$ 157,944	$ 252,374
Intangible Assets:			
Carrying amount			
Covenants not to compete	5-7	$ 800	$ 800
UtiliQuest tradename	Indefinite	4,700	4,700
Tradenames	4-15	2,925	2,925
Customer relationships	5-15	77,555	77,555
		85,980	85,980

Accumulated amortization:		
Covenants not to compete	800	747
Tradenames	811	714
Customer relationships	25,035	21,659
	26,646	23,120
Net Intangible Assets	$ 59,334	$ 62,860

For finite-lived intangible assets, amortization expense for the three months ended January 24, 2009 and January 26, 2008 was $1.7 million and $1.8 million, respectively. For finite-lived intangible assets, amortization expense for the six months ended January 24, 2009 and January 26, 2008 was $3.5 million and $3.6 million, respectively. Amortization for the Company s customer relationships is recognized on an accelerated basis related to the expected economic benefit of the intangible asset. Amortization for the Company s other finite-lived intangibles is recognized on a straight-line basis over the estimated useful life of the intangible assets.

The Company s goodwill resides in multiple reporting units. The profitability of individual reporting units may periodically suffer from downturns in customer demand and other factors which result from the cyclical nature of the Company s business, the high level of competition existing within the Company s industry, the concentration of the Company s revenues within a limited number of customers and the level of overall economic activity. Individual reporting units may be relatively more impacted by these factors than the Company as a whole. Specifically during times of economic slowdown, the Company s customers may reduce their capital expenditures and defer or cancel pending projects. As a result, demand for the services of one or more of the reporting units could decline resulting in an impairment of goodwill or intangible assets and could adversely affect the Company s operations, cash flows and liquidity.

The Company tested its reporting units goodwill for impairment in the fourth quarter of fiscal 2008 and determined its Stevens Communications (Stevens) and Nichols Communications (Nichols) reporting units were impaired and consequently recognized goodwill impairment charges of approximately $5.9 million and $3.8 million, respectively. The estimate of fair value of these reporting units was 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 and operational strategies. The key assumptions used to determine the fair value of the Company s reporting units during the fiscal 2008 annual impairment analysis were: (a) expected cash flow for a period of seven years; (b) terminal value based upon terminal growth rates of between 2% and 4%; and (c) a discount rate of 12% which was based on the Company s best estimate during the period of the weighted average cost of capital adjusted for risks associated with the reporting units. The Company believes the assumptions used in the fiscal 2008 annual impairment analysis were consistent with the risk inherent in the business models of its reporting units and within the Company s industry at the time the analysis was performed.

SFAS No. 142 requires that goodwill and indefinite lived intangible assets be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce their fair value below their carrying amount. From October 2008 through the present, the Company s market capitalization has been significantly impacted by the extreme volatility in the U.S. equity and credit markets and has traded below the book value of shareholders equity. As a result, the Company evaluated whether the decrease in its market capitalization reflected factors that would more likely than not reduce the fair value of the reporting units below their carrying value. Based on a combination of factors, including the current economic environment, the sustained period of decline in market capitalization, and the implied valuation and discount rate assumptions in the Company s industry, the Company concluded that there were sufficient indicators to perform an interim impairment test.

The fiscal 2009 interim impairment analysis utilized the same valuation techniques used in the Company s annual fiscal 2008 impairment analysis. However, the Company employed a higher discount rate in the fiscal 2009 analysis based on current economic conditions and industry valuation comparisons. The higher discount rate used in the fiscal 2009 interim analysis resulted in a substantial decline in the fair value of the reporting units. The key assumptions used to determine the fair value of the Company s reporting units during this interim impairment analysis were: (a) expected cash flow for a period of seven years; (b) terminal value based upon terminal growth rates of between 2% and 4%; and (c) a discount rate of 18% which was based on the Company s best estimate of the weighted average cost of capital adjusted for risks associated with the reporting units. The Company believes the assumptions used in the fiscal 2009 interim impairment analysis are consistent with the risk inherent in the business models of the reporting units and within the Company s industry as of January 24, 2009.

As a result of the impairment analysis, the Company determined that the estimated fair value of the Broadband Installation Services (Broadband Express), C-2 Utility Contractors (C-2), Ervin Cable Construction (Ervin), Nichols, Stevens, and UtiliQuest reporting units were less than their respective carrying values at January 24, 2009. As a result, the Company performed a second step of the impairment analysis to determine the implied fair value of each reporting unit s goodwill. The activities in the second step included a hypothetical valuation of all of the tangible and intangible assets of the reporting units as if they had been acquired in separate business combinations. The Company s interim impairment analysis is not yet complete; however, it has recognized a preliminary goodwill impairment charge of $94.4 million. This preliminary charge included impairments at Broadband Express for $14.8 million, C-2 for $9.2 million, Ervin for $15.7 million, Nichols for $2.0 million, Stevens for $2.4 million and UtiliQuest for $50.5 million. After the preliminary impairment charges recognized, the C-2, Nichols, and Stevens reporting units have no remaining goodwill, while Broadband Express, Ervin, and UtiliQuest have $19.7 million, $7.4 million and $35.6 million remaining goodwill, respectively, as of January 24, 2009. The Company expects to complete its impairment analysis in the third quarter of fiscal 2009. Accordingly, an adjustment to the preliminary impairment charge may be required when the Company finalizes its analysis. The goodwill impairment charge did not affect the Company s compliance with its financial covenants and conditions under its revolving credit agreement or senior subordinated notes.

Based on the results of the interim testing, the Company concluded the fair value of the Company s remaining reporting units exceeded their carrying value at January 24, 2009. Accordingly, there was no impairment of these reporting units. The Company also determined there was no impairment of the $4.7 million indefinite-lived tradename at its UtiliQuest reporting unit as of January 24, 2009. In addition, an interim impairment test of the Company s finite-lived intangible assets was performed under the guidance of SFAS No. 144. In accordance with SFAS No. 144, recoverability is determined based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. The Company determined that there was no impairment of any of the finite-lived intangible assets as of January 24, 2009.

During the Company s goodwill interim impairment test, the estimated fair value of the Globe Communications (Globe), Prince Telecom (Prince), and TCS Communications (TCS) reporting units exceeded their carrying value by a margin of approximately 25% or less. Additionally, there is no excess margin of fair value over carrying value for the Broadband Express, Ervin, and UtiliQuest reporting units, as their carrying values were written down to their estimated fair values during the three months ended January 24, 2009. As a result, the goodwill and intangible asset balances of these reporting units may have an increased likelihood of impairment if adverse events were to occur or circumstances were to change, and the long-term outlook for their cash flows were adversely impacted. Broadband Express, Ervin, Globe, Prince, TCS, and UtiliQuest have remaining goodwill balances of $19.7 million, $7.4 million, $1.4 million, $39.7 million, $4.7 million, and $35.6 million, respectively, as of January 24, 2009.

Except for the preliminary goodwill impairment charges, none of the Company s reporting units have incurred significant losses in fiscal 2009. The estimates and assumptions made in assessing the fair value of the reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties. Changes in the Company s judgments and estimates could result in a significantly different estimate of the fair value of the reporting units and could result in additional reporting units with impairment of goodwill or intangible assets. A change in the estimated discount rate used would impact the preliminary amount of goodwill impairment charges recorded. Additionally, continued adverse conditions in the economy and future volatility in the equity and credit markets could continue to impact the Company s valuation of its reporting units. The Company can provide no assurances that, if such conditions continue, they will not trigger additional impairments of goodwill and other intangible assets in future periods.

8. Accrued Insurance Claims

The Company retains the risk of loss, up to certain limits, for claims related to automobile liability, general liability, workers compensation, employee group health, and locate damages. With regard to losses occurring in fiscal year 2009, the Company has retained the risk to $1.0 million on a per occurrence basis for automobile liability, general liability and workers compensation. These annual retention amounts are applicable in all of the states in which the Company operates, except with respect to workers compensation insurance in three states in which the Company chooses to participate in a state fund. Aggregate stop loss coverage for automobile liability, general liability and workers compensation claims is $50.0 million for fiscal 2009. For losses under the Company s employee health plan occurring during fiscal 2009, the Company has retained the risk, on an annual basis, of $250,000 per participant.

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Accrued insurance claims consist of the following:

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Amounts expected to be paid within one year:		
Accrued auto, general liability and workers compensation	$ 20,314	$ 16,599
Accrued employee group health	3,725	4,506
Accrued damage claims	8,632	8,729
	32,671	29,834
Amounts expected to be paid beyond one year:		
Accrued auto, general liability and workers compensation	26,948	30,156
Accrued damage claims	7,430	7,019
	34,378	37,175
Total accrued insurance claims	$ 67,049	$ 67,009

9. Other Accrued Liabilities

Other accrued liabilities consist of the following:

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Accrued payroll and related taxes	$ 22,184	$ 25,935
Accrued employee benefit and bonus costs	2,985	7,017
Accrued construction costs	6,177	10,434
Interest payable	3,463	3,621
Other	9,251	19,268
Total other accrued liabilities	$ 44,060	$ 66,275

Included in other accrued liabilities as of July 26, 2008 was $8.6 million in accrued costs related to a wage and hour class action settlement (see Note 16). This amount was paid during fiscal 2009.

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10. Debt

The Company s outstanding indebtedness consists of the following:

	January 24, 2009	July 26, 2008
	(Dollars in thousands)	
Senior subordinated notes	$ 145,350	$ 150,000
Capital leases	2,087	3,355
	147,437	153,355
Less: current portion	1,759	2,306
Long-term debt	$ 145,678	$ 151,049

On September 12, 2008, the Company entered into a new three-year $195.0 million Credit Agreement (Credit Agreement) with a syndicate of banks. The Credit Agreement has an expiration date of September 12, 2011 and provides for a maximum borrowing of $195.0 million, including a sublimit of $100.0 million for the issuance of letters of credit. Subject to certain conditions, the Credit Agreement provides for two one-year extensions and the ability to borrow an incremental $100.0 million. The Credit Agreement replaces the Company s existing credit facility which was due to expire in December 2009 (the Prior Agreement). Letters of credit issued from the Prior Agreement were transferred to the Credit Agreement.

Borrowings under the Credit Agreement bear interest, at the Company s option, at either (a) the administrative agent s base rate, described in the Credit Agreement as the higher of the administrative agent s prime rate or the federal funds rate plus 0.50%, or (b) LIBOR (a publicly published rate) plus, in either case, a spread based upon the Company s consolidated leverage ratio. Based on the Company s current leverage ratio, borrowings are eligible for a spread of 1.00% for revolving borrowings based on prime rate or the federal funds rate and 2.00% for borrowings based on LIBOR. The Credit Agreement also includes a fee for letters of credit, currently at a rate of 2.125% per annum on the outstanding amount. In addition, the Company pays a quarterly facility fee, at rates that range from 0.50% to 0.75% of the unutilized commitments depending on the Company s leverage ratio. The payments under the Credit Agreement are guaranteed by certain subsidiaries and secured by a pledge of (i) 100% of the equity of the Company s material domestic subsidiaries, (ii) 100% of the non-voting equity and 65% of the voting equity of first tier material foreign subsidiaries, if any, in each case excluding certain unrestricted subsidiaries.

The Credit Agreement contains certain affirmative and negative covenants, including limitations with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, disposition of assets, sale-leaseback transactions and transactions with affiliates. The Credit Agreement contains financial covenants based on defined calculations which require the Company to (i) maintain a leverage ratio of not greater than 3.00 to 1.00, as measured at the end of each fiscal quarter, (ii) maintain an interest coverage ratio of not less than 2.75 to 1.00, as measured at the end of each fiscal quarter and (iii) maintain consolidated total tangible net worth, as measured at the end of each fiscal quarter, of not less than $50.0 million plus (A) 50% of consolidated net income (if positive) from September 12, 2008 to the date of computation plus (B) 75% of equity issuances made from September 12, 2008 to the date of computation.

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As of January 24, 2009, the Company had no outstanding borrowings and $51.8 million of outstanding letters of credit issued under the Credit Agreement. The outstanding letters of credit are issued as part of the Company s insurance program. At January 24, 2009, the Company had additional borrowing availability of $143.2 million under the most restrictive covenants of the Credit Agreement and was in compliance with the financial covenants and conditions.

In October 2005, Dycom Investments, Inc., a wholly-owned subsidiary of the Company, issued 8.125% senior subordinated notes (Notes) due October 2015 in the aggregate principal amount of $150.0 million. Interest is due semi-annually on April 15th and October 15th of each year. During the three months ended January 24, 2009, the Company purchased $4.65 million principal amount of the Notes for $3.2 million. The net gain, after the write-off of associated debt issuance costs, was $1.3 million and is included in other income for the three and six months ended January 24, 2009. The indenture governing the Notes contains covenants that restrict the Company s ability to: make certain payments, including the payment of dividends; redeem or repurchase capital stock of the Company; incur additional indebtedness and issue preferred stock; make investments; create liens; enter into sale and leaseback transactions; merge or consolidate with another entity; sell assets; and enter into transactions with affiliates. As of January 24, 2009, the Company was in compliance with all covenants and conditions under the indenture governing the Notes.

The Company had $2.1 million in capital lease obligations as of January 24, 2009. The capital lease obligations were assumed in connection with the fiscal 2007 acquisitions of Cable Express Holding Company and Cavo Communications, Inc. The capital leases include obligations for certain vehicles and computer equipment and expire at various dates through fiscal year 2011.

11. Income Taxes

The Company s effective income tax rate was 18.2% and 13.3% for the three and six months ended January 24, 2009, respectively. The Company s effective income tax rate was 37.0% and 39.3% for the three and six months ended January 26, 2008, respectively. Our effective income tax rate for the three and six months ended January 24, 2009 differs from the statutory rate during the periods primarily as a result of the non-cash goodwill impairment charge of $94.4 million (see Note 7), of which only $17.4 million was deductible for income tax purposes.

As of January 24, 2009, the total amount of unrecognized tax benefits is $4.2 million. If it is subsequently determined those liabilities are not required, approximately $3.8 million would affect the Company s effective tax rate and $0.4 million would reduce goodwill during the periods recognized.

The Company recognizes interest related to unrecognized tax benefits in interest expense and penalties in general and administrative expenses. During the three months ended January 24, 2009 and January 26, 2008, the Company recognized approximately $0.1 million and $0.2 million, respectively, in interest expense in the accompanying condensed consolidated statements of operations. During the six months ended January 24, 2009 and January 26, 2008, the Company recognized approximately $0.2 million and $0.4 million, respectively, in interest expense in the accompanying condensed consolidated statements of operations.

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12. Other Income, net

The components of other income, net, are as follows:

	For the Three Months Ended		For the Six Months Ended	
	January 24, 2009	January 26, 2008	January 24, 2009	January 26, 2008
	(Dollars in thousands)			
Gain on sale of fixed assets	$ 499	$ 828	$ 1,520	$ 2,204
Miscellaneous (loss) income	33	(30)	(35)	166
Gain on extinguishment of debt, net (See Note 10)	1,300		1,300	
Write-off of deferred financing costs			(551)	
Total other income, net	$ 1,832	$ 798	$ 2,234	$ 2,370

13. Capital Stock

On each of August 28, 2007 and May 20, 2008, the Company s Board of Directors authorized the repurchase of up to $15 million of its common stock over an eighteen month period in open market or private transactions (for an aggregate authorization of $30 million). On August 26, 2008 the Board of Directors increased its authorization to repurchase shares of its common stock by $15 million, from $30 million to $45 million. The stock repurchases are authorized to be made through February 2010. As of January 24, 2009, approximately $19.8 million of the authorized amount remains for the repurchase of common stock.

14. Stock-Based Awards

The Company s stock-based award plans are comprised of the following (collectively, the Plans):

the 1991 Incentive Stock Option Plan (1991 Plan)

the Arguss Communications, Inc. 1991 Stock Option Plan (1991 Arguss Plan)

the 1998 Incentive Stock Option Plan (1998 Plan)

the 2001 Directors Stock Option Plan (2001 Directors Plan)

the 2002 Directors Restricted Stock Plan (2002 Directors Plan)

the 2003 Long-term Incentive Plan (2003 Plan)

the 2007 Non-Employee Directors Equity Plan (2007 Directors Plan)

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The outstanding options under the 1991 Plan, the 1991 Arguss Plan, and the 1998 Plan are fully vested. The outstanding options under the 2003 Plan, the 2001 Directors Plan and 2007 Directors Plan, vest ratably over a four-year period, beginning on the date of the grant. Performance vesting restricted shares and units that are outstanding vest over a three year period from the grant date, if certain annual and three year Company performance goals are achieved. The Company s policy is to issue new shares to satisfy equity awards under the Plans. Under the terms of the Plans, stock options are granted at the closing price on the date of the grant and are exercisable over a period of up to ten years.

The 2007 Directors Plan provides for equity grants to non-employee directors upon their initial election or appointment to the Board of Directors and for annual equity grants to continuing non-employee directors. Additionally, to the extent that a non-employee director does not beneficially own 7,500 shares of Company common stock, the plan requires a portion of the annual retainer paid to the director to be paid in the form of restricted shares or restricted share units.

The following table lists the number of shares available and outstanding under each plan as of January 24, 2009, including restricted performance shares and units that will be issued under outstanding awards if certain performance goals are met:

	Plan Expiration	Outstanding Stock Options	Unvested Restricted Shares and Units Outstanding	Shares Available for Grant
1991 Plan	Expired	45,000		
1991 Arguss Plan (a)	N/A	46,352		
2001 Directors Plan (a)	2011	54,501		
2002 Directors Plan (a)	2012		3,212	
1998 Plan (b)	2008	1,349,545		843,097
2003 Plan (b)	2013	1,517,143	829,701	989,926
2007 Directors Plan	2017	87,604	33,733	166,741
		3,100,145	866,646	1,999,764

(a) No further options will be granted under the 1991 Arguss Plan, the 2001 Directors Plan, or the 2002 Directors Plan.

(b) The 843,097 available shares under the 1998 Plan that have been authorized but not issued are available for grant under the 2003 Plan.

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The following tables summarize the stock-based awards outstanding at January 24, 2009:

	Shares Subject to Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (In thousands)
Options outstanding	3,100,145	$ 23.65	5.3	$ 157
Options exercisable*	2,246,167	$ 29.75	3.6	$

* Options exercisable reflect the approximate amount of options expected to vest after giving effect to estimated forfeitures at an insignificant rate.

	Restricted Shares/Units	Weighted Average Grant Price	Weighted Average Remaining Vesting Period	Aggregate Intrinsic Value (In thousands)
Unvested time vesting shares/units	179,200	$ 13.86	2.5	$ 1,236