

MYR GROUP INC.  
Form 10-Q  
November 02, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**<sup>x</sup> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended September 30, 2016**

**OR**

**<sup>0</sup> TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from                      to**

**Commission file number: 1-08325**

**MYR GROUP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**36-3158643**

(I.R.S. Employer Identification No.)

**1701 Golf Road, Suite 3-1012**

**Rolling Meadows, IL**

(Address of principal executive offices)

**60008**

(Zip Code)

**(847) 290-1891**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

As of October 28, 2016, there were 16,064,682 outstanding shares of the registrant's \$0.01 par value common stock.

## **WEBSITE ACCESS TO COMPANY'S REPORTS**

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

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

**MYR GROUP INC.****CONSOLIDATED BALANCE SHEETS**

	September 30, 2016 (unaudited)	December 31, 2015
<u>(In thousands, except share and per share data)</u>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 584	\$ 39,797
Accounts receivable, net of allowances of \$362 and \$376, respectively	185,454	187,235
Costs and estimated earnings in excess of billings on uncompleted contracts	80,305	51,486
Receivable for insurance claims in excess of deductibles	12,930	11,290
Refundable income taxes	1,296	5,617
Other current assets	5,383	7,942
Total current assets	285,952	303,367
Property and equipment, net of accumulated depreciation of \$203,786 and \$181,575, respectively	153,009	160,678
Goodwill	46,781	47,124
Intangible assets, net of accumulated amortization of \$4,489 and \$3,798, respectively	11,017	11,362
Other assets	2,850	2,394
Total assets	\$ 499,609	\$ 524,925
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt, including capital leases	\$ 1,062	\$ —
Accounts payable	85,867	73,300
Billings in excess of costs and estimated earnings on uncompleted contracts	46,052	40,614
Accrued self insurance	37,267	36,967
Other current liabilities	28,101	28,856
Total current liabilities	198,349	179,737
Deferred income tax liabilities	14,242	14,382
Long-term debt, including capital leases, net of current maturities	37,500	—
Other liabilities	845	926
Total liabilities	250,936	195,045
Commitments and contingencies		
Stockholders' equity:		
Preferred stock—\$0.01 par value per share; 4,000,000 authorized shares; none issued and outstanding at September 30, 2016 and December 31, 2015	—	—
Common stock—\$0.01 par value per share; 100,000,000 authorized shares;	158	198

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16,064,682 and 19,969,347 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively

Additional paid-in capital	132,917	161,342
Accumulated other comprehensive income	51	116
Retained earnings	115,547	168,224
Total stockholders' equity	248,673	329,880
Total liabilities and stockholders' equity	\$ 499,609	\$ 524,925

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

**MYR GROUP INC.****UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)**

<u>(In thousands, except per share data)</u>	Three months ended		Nine months ended	
	September 30, 2016	2015	September 30, 2016	2015
Contract revenues	\$283,259	\$269,861	\$798,827	\$790,497
Contract costs	249,196	241,241	706,048	700,767
Gross profit	34,063	28,620	92,779	89,730
Selling, general and administrative expenses	23,203	18,974	69,579	56,513
Amortization of intangible assets	188	84	691	251
Gain on sale of property and equipment	(467 )	(357 )	(1,079 )	(1,574 )
Income from operations	11,139	9,919	23,588	34,540
Other income (expense)				
Interest income	—	8	5	23
Interest expense	(408 )	(180 )	(833 )	(546 )
Other, net	(417 )	438	(361 )	349
Income before provision for income taxes	10,314	10,185	22,399	34,366
Income tax expense	4,168	4,010	8,766	12,945
Net income	\$6,146	\$6,175	\$13,633	\$21,421
Income per common share:				
—Basic	\$0.39	\$0.30	\$0.78	\$1.03
—Diluted	\$0.38	\$0.29	\$0.77	\$1.01
Weighted average number of common shares and potential common shares outstanding:				
—Basic	15,805	20,788	17,489	20,662
—Diluted	16,177	21,214	17,817	21,113
Net income	\$6,146	\$6,175	\$13,633	\$21,421
Other comprehensive income (loss):				
Foreign currency translation adjustment	19	50	(65 )	69
Other comprehensive income (loss)	19	50	(65 )	69
Total comprehensive income	\$6,165	\$6,225	\$13,568	\$21,490

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

**MYR GROUP INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

<u>(In thousands)</u>	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$13,633	\$21,421
Adjustments to reconcile net income to net cash flows provided by operating activities —		
Depreciation and amortization of property and equipment	28,747	27,767
Amortization of intangible assets	691	251
Stock-based compensation expense	3,488	3,843
Deferred income taxes	(116 )	(186 )
Gain on sale of property and equipment	(1,079 )	(1,574 )
Other non-cash items	(38 )	175
Changes in operating assets and liabilities		
Accounts receivable, net	1,770	(24,301)
Costs and estimated earnings in excess of billings on uncompleted contracts	(28,774 )	(31,319)
Receivable for insurance claims in excess of deductibles	(1,640 )	920
Other assets	7,008	(1,234 )
Accounts payable	11,022	17,014
Billings in excess of costs and estimated earnings on uncompleted contracts	5,454	6,079
Accrued self insurance	299	(3,387 )
Other liabilities	32	(4,774 )
Net cash flows provided by operating activities	40,497	10,695
Cash flows from investing activities:		
Proceeds from sale of property and equipment	2,544	1,980
Cash paid for acquired business	—	(11,374)
Purchases of property and equipment	(17,948 )	(42,795)
Net cash flows used in investing activities	(15,404 )	(52,189)
Cash flows from financing activities:		
Net borrowings under revolving lines of credit	33,407	—
Payment of principal obligations under capital leases	(442 )	—
Increase in outstanding checks	2,540	—
Proceeds from exercise of stock options	2,080	1,823
Debt issuance costs	(1,006 )	—
Excess tax benefit from stock-based awards	480	1,676
Repurchase of common shares	(101,483)	(9,240 )
Other financing activities	63	28



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Net cash flows used in financing activities	(64,361 )	(5,713 )
Effect of exchange rate changes on cash	55	—
Net decrease in cash and cash equivalents	(39,213 )	(47,207)
Cash and cash equivalents:		
Beginning of period	39,797	77,636
End of period	\$584	\$30,429

Supplemental cash flow information:

Noncash investing activities:

Acquisition of property and equipment acquired under capital lease arrangements	\$5,580	\$—
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Noncash financing activities:

Capital lease obligations initiated	\$5,580	\$—
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The accompanying notes are an integral part of these consolidated financial statements.

**MYR GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. Organization, Business and Basis of Presentation**

**Organization and Business**

MYR Group Inc. (the “Company”) is a holding company of specialty electrical construction service providers that conducts operations through a number of wholly-owned subsidiaries including: The L. E. Myers Co., a Delaware corporation; Harlan Electric Company, a Michigan corporation; Great Southwestern Construction, Inc., a Colorado corporation; Sturgeon Electric Company, Inc., a Michigan corporation; Sturgeon Electric California, LLC, a Delaware limited liability company; MYR Transmission Services, Inc., a Delaware corporation; E.S. Boulos Company, a Delaware corporation; High Country Line Construction, Inc., a Nevada corporation; MYR Group Construction Canada, Ltd., a British Columbia corporation; MYR Transmission Services Canada, Ltd., a British Columbia corporation; and Northern Transmission Services, Ltd., a British Columbia corporation.

The Company performs construction services in two business segments: Transmission and Distribution (“T&D”), and Commercial and Industrial (“C&I”). T&D customers include investor-owned utilities, cooperatives, private developers, government-funded utilities, independent power producers, independent transmission companies, industrial facility owners and other contractors. The Company provides a broad range of services, which include design, engineering, procurement, construction, upgrade, maintenance and repair services, with a particular focus on construction, maintenance and repair. The Company also provides C&I electrical contracting services to general contractors, commercial and industrial facility owners, local governments and developers in the western and northeastern United States.

**Basis of Presentation**

***Interim Consolidated Financial Information***

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures, normally included in annual financial statements prepared in accordance with U.S. GAAP, have been condensed or omitted pursuant to the rules and regulations of the SEC. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management all adjustments, consisting only of normal recurring adjustments, necessary to fairly state the financial position, results of operations, comprehensive income and cash flows with respect to the interim consolidated financial statements have been included. The consolidated balance sheet as of December 31, 2015 has been derived from the audited financial statements as of that date. The results of operations and comprehensive income are not necessarily indicative of the results for the full year or the results for any future periods. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2015, included in the Company's annual report on Form 10-K, which was filed with the SEC on March 3, 2016.

### ***Foreign Currency***

The functional currency for the Company's Canadian operations is the Canadian dollar. Assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at the end-of-period exchange rate. Revenues and expenses are translated using average exchange rates for the periods reported. Cumulative translation adjustments are included as a separate component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction gains and losses, arising primarily from changes in exchange rates on foreign currency denominated balances, are recorded in the "other, net" line on the consolidated statements of operations. For the three and nine months ended September 30, 2016, the Company recorded foreign currency transaction losses of \$0.3 million and \$0.1 million, respectively.

### ***Use of Estimates***

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

The percentage of completion method of accounting requires the Company to make estimates about the expected revenue and gross profit on each of its contracts in process. The estimates are reviewed and revised quarterly, as needed. During the three months ended September 30, 2016, changes in estimates pertaining to certain projects resulted in a net increased consolidated gross margin of 0.7%. The Company's income from operations for the three months ended September 30, 2016 increased \$2.0 million due to the changes in estimated gross profit. These changes in estimates resulted in an increase of \$1.2 million in net income, or \$0.07 in diluted earnings per common share, during the three months ended September 30, 2016. During the nine months ended September 30, 2016, changes in estimates pertaining to certain projects resulted in a net decreased consolidated gross margin of 0.5%. The Company's income from operations for the nine months ended September 30, 2016 decreased \$3.6 million due to the changes in estimated gross profit. These changes in estimates resulted in a decrease of \$2.2 million in net income, or \$0.12 in diluted earnings per common share, during the nine months ended September 30, 2016. During the three months ended September 30, 2015, changes in estimates pertaining to certain projects resulted in a net decreased consolidated gross margin of 0.5%. The Company's income from operations for the three months ended September 30, 2015 decreased \$1.3 million due to the changes in estimated gross profit. These changes in estimates resulted in decreases of \$0.8 million in net income or \$0.04 in diluted earnings per common share during the three months ended September 30, 2015. During the nine months ended September 30, 2015, changes in estimates pertaining to certain projects, the majority of which were transmission projects, resulted in a net increased consolidated gross margin of 0.5%. The Company's income from operations for the nine months ended September 30, 2015 increased \$3.5 million due to the changes in estimated gross profit. These changes in estimates resulted in increases of \$2.2 million in net income or \$0.10 in diluted earnings per common share during the nine months ended September 30, 2015.

### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. As of September 30, 2016 and December 31, 2015, the Company held its cash in checking accounts or in highly liquid money market funds. The Company's banking arrangements allow the Company to fund outstanding checks when presented to financial institutions for payment. The Company funds all intraday bank balances overdrafts during the same business day. Checks issued and outstanding in excess of bank balance are recorded in accounts payable in the Consolidated Balance Sheets and are reflected as a financing activity in the Consolidated Statements of Cash Flows. As of September 30, 2016 the Company had checks issued and outstanding in excess of our bank balance of \$2.5 million. The Company had no checks issued and outstanding in excess of our bank balance as of December 31, 2015.

### ***Recent Accounting Pronouncements***

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

minimal impact on our consolidated financial statements.

### ***Recently Adopted Accounting Pronouncements***

In April 2015, FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Topic 835)*, which simplifies the presentation of debt issuance costs by requiring debt issuance costs related to a debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. Additionally in August 2015, the FASB issued ASU 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Topic 835)*, to clarify that an entity may elect to present debt issuance costs related to a line-of-credit arrangement as an asset, regardless of whether or not there are any outstanding borrowings on the line-of-credit arrangement. The Company adopted these ASUs on January 1, 2016. The Company has elected to present debt issuance costs related to the line of credit as a deferred asset within other assets as permitted by ASU 2015-15, resulting in no change on the Company's financial statements.

### ***Recently Issued Accounting Pronouncements***

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which modifies existing guidance and is intended to reduce the diversity in practice with respect to the accounting for income tax consequences of intra-entity transfers of assets. This update requires entities to immediately recognize the tax consequences on intercompany asset transfers (excluding inventory) at the transaction date, and eliminates the recognition exception within current guidance. The update is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The guidance requires application using a modified retrospective approach. The Company is evaluating the impact this pronouncement will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which is intended to reduce diversity in practice in how eight specific transactions are classified in the statement of cash flows. The update is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective approach. The Company is evaluating the impact this update will have on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718)*. The amendments under this pronouncement make modifications to the accounting treatment for forfeitures, required withholding on stock compensation and the financial statement presentation of excess tax benefits or deficiencies and certain components of stock compensation. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted in any interim period. The Company is evaluating the impact this pronouncement will have on its policies and procedures pertaining to its accounting for stock compensation, disclosure requirements and on the Company's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The amendments under this pronouncement will change the way all leases with durations in excess of one year or more are treated. Under this guidance, lessees will be required to recognize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or capital lease liability. The right-of-use asset represents the lessee's right to use, or control the use of, a specified asset for the specified lease term. The lease liability represents the lessee's obligation to make lease payments arising from the lease, measured on a discounted basis. Based on certain characteristics, leases are classified as financing leases or operating leases. Financing lease liabilities, which contain provisions similar to capitalized leases, are amortized like capital leases under current accounting, as amortization expense and interest expense in the statement of operations. Operating lease liabilities are amortized on a straight-line basis over the life of the lease as lease expense in the statement of operations. This update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2018. The Company is evaluating the impact this pronouncement will have on its policies and procedures pertaining to its existing and future lease arrangements, disclosure requirements and on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-09, *Presentation of Financial Statements—Going Concern (Topic 205)*. The amendments under this pronouncement address the diversity in practice in determining when there is substantial doubt about an entity's ability to continue as a going concern and when and how an entity must disclose certain relevant conditions and events. This update requires an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued). If such conditions or events exist, an entity should disclose that there is substantial doubt about the entity's ability to continue as a going concern for a period of one year after the date that the financial statements are issued (or available to be issued), along with the principal conditions or events that raise substantial doubt, management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations and management's plans that are intended to mitigate those conditions or events. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, although early adoption is permitted in any interim period. This guidance would impact the disclosure and presentation of any substantial doubt about the Company's ability to continue as a going concern, if such substantial doubt were to exist.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments under this pronouncement may change how an entity recognizes revenue from contracts it enters to transfer goods, services or nonfinancial assets to its customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede

virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with the customer; Step 2: Identify the performance obligations in the contract; Step 3: Determine the transaction price; Step 4: Allocate the transaction price to the performance obligations in the contract; Step 5: Recognize revenue when, or as, the entity satisfies the performance obligations. In addition, the amendments require expanded disclosure to enable the users of the financial statements to understand the nature, timing and uncertainty of revenue and cash flow arising from contracts with customers. On August 16, 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date, permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is evaluating the impact of this pronouncement and its expanded disclosure requirements, and all amendments relating to this pronouncement, on the Company's policies and procedures pertaining to recognition of revenue from contracts with customers, and the impact on the Company's financial statements.

## **2. Acquisitions**

On November 24, 2015, the Company acquired all of the outstanding common stock of High Country Line Construction, Inc. ("HCL"). The acquisition of HCL expands the Company's T&D construction services, predominantly in the western United States. The acquisition date fair value of consideration transferred was \$1.7 million, net of cash acquired, of which \$0.3 million was allocated to identifiable intangibles (backlog and customer relationships) and the remaining \$0.2 million allocated to goodwill. The Company has finalized the purchase price accounting relating to the HCL acquisition. Costs of approximately \$0.2 million related to the acquisition were included in selling, general and administrative expenses in the December 31, 2015 consolidated statement of operations.

On April 13, 2015, the Company acquired substantially all of the assets of E.S. Boulos Company (“ESB”). The total consideration paid was approximately \$11.4 million, which was funded through existing cash resources of the Company. Headquartered in Westbrook, Maine, ESB offers construction capabilities under the Company’s T&D segment, including substation, transmission and distribution construction. ESB also provides commercial and industrial electrical construction under its C&I segment, including a wide range of commercial electrical construction services. The Company has finalized the purchase price accounting relating to the ESB acquisition.

### 3. Fair Value Measurements

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

As of September 30, 2016 and December 31, 2015, the carrying value of the Company’s cash and cash equivalents approximated fair value based on Level 1 inputs. As of September 30, 2016, the fair value of the Company’s long-term debt including capital leases, was based on variable and fixed interest rates at September 30, 2016, for new issues with similar remaining maturities and approximated carrying value based on Level 2 inputs.

### 4. Contracts in Process

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

	September 30, 2016	December 31, 2015
<u>(In thousands)</u>		
Costs and estimated earnings on uncompleted contracts	\$ 1,713,230	\$ 2,153,085
Less: Billings to date	1,678,977	2,142,213
	\$ 34,253	\$ 10,872



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

	September 30, 2016	December 31, 2015
<u>(In thousands)</u>		
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 80,305	\$ 51,486
Billings in excess of costs and estimated earnings on uncompleted contracts	(46,052 )	(40,614 )
	\$ 34,253	\$ 10,872

## 5. Lease Obligations

From time to time, the Company enters into leasing arrangements for real estate, vehicles and construction equipment. In 2016 the Company entered into master leasing arrangements for vehicles and construction equipment. Some of the leases entered into under these agreements were recorded as capital leases while others were treated as operating leases. As of September 30, 2016, the Company had no outstanding commitments to enter into future leases under its master lease agreements.

***Capital Leases***

The Company leases vehicles and certain equipment under capital leases. The economic substance of the leases is a financing transaction for acquisition of the vehicles and equipment and, accordingly, the leases are included in the balance sheets in property and equipment, net of accumulated depreciation, with a corresponding amount recorded in current and long term debt. The capital lease assets are amortized over the life of the lease or, if shorter, the life of the leased asset, on a straight line basis and included in depreciation expense in the statements of operations. The interest associated with capital leases is included in interest expense in the statements of operations.

As of September 30, 2016, \$5.2 million of leased assets were capitalized in property and equipment, net of accumulated depreciation.

***Operating Leases***

The Company leases real estate, construction equipment and office equipment under operating leases with remaining terms ranging from one to five years.

The future minimum lease payments required under capital leases and operating leases, together with the present value of capital leases, as of September 30, 2016 were as follows:

<u>(In thousands)</u>	Capital Lease Obligations	Operating Lease Obligations
Remainder of 2016	\$ 301	\$ 653
2017	1,203	2,104
2018	1,203	1,776
2019	1,203	1,501
2020	1,203	942
2021	401	583
Total minimum lease payments	\$ 5,514	\$ 7,559
Interest	(376)	)
Net present value of minimum lease payments	5,138	
Less: Current portion of capital lease obligations	(1,062)	)
Long-term capital lease obligations	\$ 4,076	

## 6. Debt and Capital Lease Obligations

On June 30, 2016, the Company entered into a five-year amended and restated credit agreement (the “Credit Agreement”) with a facility of \$250 million (the “2016 Facility”) with a syndicate of banks led by JPMorgan Chase Bank, N.A. and Bank of America, N.A. The 2016 Facility may be used for revolving loans and letters of credit. The 2016 Facility also allows for revolving loans and letters of credit in Canadian dollars and other currencies, up to the U.S. dollar equivalent of \$50 million. The Company has an expansion option to increase the commitments under the 2016 Facility or enter into incremental term loans, subject to certain conditions, by up to an additional \$100 million upon receipt of additional commitments from new or existing lenders. Subject to certain exceptions, the 2016 Facility is secured by substantially all of the assets of the Company and its domestic subsidiaries and by a pledge of substantially all of the capital stock of the Company’s domestic subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of the Company. Additionally, subject to certain exceptions, the Company’s domestic subsidiaries also guarantee the repayment of all amounts due under the Credit Agreement. If an event of default occurs and is continuing, on the terms and subject to the conditions set forth in the Credit Agreement, amounts outstanding under the 2016 Facility may be accelerated and may become or be declared immediately due and payable. Borrowings under the Credit Agreement were used to refinance existing debt and are expected to be used for working capital, capital expenditures, acquisitions and other general corporate purposes.

Amounts borrowed under the Credit Agreement in U.S. dollars bear interest, at the Company’s option, at a rate equal to either (1) the Alternate Base Rate (as defined in the Credit Agreement), plus an applicable margin ranging from 0.00% to 1.00%; or (2) Adjusted LIBO Rate (as defined in the Credit Agreement) plus an applicable margin ranging from 1.00% to 2.00%. Amounts borrowed under the Credit Agreement in any currency other than U.S. dollars will bear interest at a rate equal to the Adjusted LIBO Rate plus an applicable margin ranging from 1.00% to 2.00%. The applicable margin is determined based on the Company’s consolidated Leverage Ratio (as defined in the Credit Agreement). Letters of credit issued under the 2016 Facility are subject to a letter of credit fee of 1.125% to 2.125% for standby or commercial letters of credit or 0.625% to 1.125% for performance letters of credit, based on the Company’s consolidated Leverage Ratio. The Company also will be subject to a commitment fee of 0.20% to 0.375% based on the Company’s consolidated Leverage Ratio on any unused portion of the 2016 Facility. The Credit Agreement restricts certain types of payments when the Company’s consolidated Leverage Ratio exceeds 2.25. The weighted average interest rate on borrowings outstanding through September 30, 2016, was 1.69% per annum.

Under the Credit Agreement, the Company is subject to certain financial covenants and must maintain a maximum consolidated Leverage Ratio of 3.0 and a minimum interest coverage ratio of 3.0, which is defined in the Credit Agreement as Consolidated EBITDA (as defined in the Credit Agreement) divided by interest expense. The Credit Agreement also contains a number of covenants including limitations on asset sales, investments, indebtedness and liens. In connection with any permitted acquisition where the total consideration exceeds \$50 million, the Company may request that the maximum permitted consolidated Leverage Ratio increase from 3.0 to 3.5. Any such increase, if given effect, shall begin in the quarter in which such permitted acquisition is consummated and shall continue in effect for four consecutive fiscal quarters.

Prior to the amendment and restatement of the Credit Agreement, the Company had a five-year syndicated credit agreement with a facility of \$175.0 million (the “2011 Facility”). The 2011 Facility provided funds for revolving loans and the issuance of letters of credit and up to \$25.0 million for swingline loans.

The amount outstanding on the 2016 Facility was \$33.4 million as of September 30, 2016. The Company had no revolving loans outstanding as of December 31, 2015.

As of September 30, 2016, the Company had irrevocable standby letters of credit outstanding under the 2016 Facility of approximately \$24.3 million, including \$17.6 million related to the Company’s payment obligation under its insurance programs and approximately \$6.7 million related to contract performance obligations. As of December 31, 2015, the Company had irrevocable standby letters of credit outstanding of approximately \$19.3 million, including \$17.5 million related to the Company’s payment obligation under its insurance programs and approximately \$1.8 million related to contract performance obligations.

The Company has remaining deferred debt issuance costs totaling \$1.0 million as of September 30, 2016, related to entry into the line of credit. As permitted under ASU No. 2015-15, debt issuance costs have been deferred and are presented as an asset within other assets, which is amortized as interest expense over the term of the line of credit.

As of September 30, 2016, the Company had approximately \$5.1 million of capital lease obligations outstanding, \$1.1 million of which was classified as a current liability. As of December 31, 2015, the Company had no outstanding capital lease obligations.

## **7. Income Taxes**

The difference between the U.S. federal statutory tax rate of 35% and the Company's effective tax rates for the three and nine months ended September 30, 2016 and 2015 was principally due to state income taxes.

The Company had unrecognized tax benefits of approximately \$0.6 million as of September 30, 2016 and December 31, 2015, which were included in other liabilities in the accompanying consolidated balance sheets.

The Company's policy is to recognize interest and penalties related to income tax liabilities as a component of income tax expense in the consolidated statements of operations. The amount of interest and penalties charged to income tax expense because of the unrecognized tax benefits was not significant for the three and nine months ended September 30, 2016 and 2015.

The Company is subject to taxation in various jurisdictions. The Company's tax returns for 2012 through 2014 are currently under examination by U.S. federal authorities and the 2015 tax return is subject to examination. The Company's tax returns are subject to examination by various state authorities for the years 2012 through 2015.

## **8. Commitments and Contingencies**

### ***Purchase Commitments***

As of September 30, 2016, the Company had approximately \$1.1 million in outstanding purchase orders for certain construction equipment, with cash outlay requirements scheduled to occur over the next three months.

### ***Insurance and Claims Accruals***

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

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

### ***Performance and Payment Bonds***

In certain circumstances, the Company is required to provide performance and payment bonds in connection with its future performance on certain contractual commitments. The Company has indemnified its surety for any expenses paid out under these bonds. As of September 30, 2016, an aggregate of approximately \$910.1 million in original face amount of bonds issued by the surety were outstanding. Our estimated remaining cost to complete these bonded projects was approximately \$71.6 million as of September 30, 2016.

### ***Indemnities***

From time to time, pursuant to its service arrangements, the Company indemnifies its customers for claims related to the services it provides under those service arrangements. These indemnification obligations may subject the Company to indemnity claims and liabilities and related litigation. The Company is not aware of any material unrecorded liabilities for asserted claims in connection with these indemnification obligations.

### ***Collective Bargaining Agreements***

Many of the Company's subsidiaries' craft labor employees are covered by collective bargaining agreements. The agreements require the subsidiaries to pay specified wages, provide certain benefits and contribute certain amounts to

multi-employer pension plans. If a subsidiary withdraws from any of the multi-employer pension plans or if the plans were to otherwise become underfunded, the subsidiary could incur additional liabilities related to these plans. Although the Company has been informed that some of the multi-employer pension plans to which its subsidiaries contribute have been classified as “critical” status, the Company is not currently aware of any significant liabilities related to this issue.

### ***Litigation and Other Legal Matters***

The Company is from time-to-time party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief.

The Company is routinely subject to other civil claims, litigation and arbitration, and regulatory investigations arising in the ordinary course of our business as well as in respect of our divested businesses. These claims, lawsuits and other proceedings include claims related to the Company’s current services and operations, as well as our historic operations.

With respect to all such lawsuits, claims and proceedings, the Company records reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, separately or in the aggregate, would be expected to have a material adverse effect on the Company’s financial position, results of operations or cash flows.

### **9. Stock-Based Compensation**

The Company maintains two equity compensation plans under which stock-based compensation has been granted; the 2006 Stock Option Plan (the “2006 Plan”) and the 2007 Long-Term Incentive Plan, as amended (the “LTIP”). Upon the adoption of the LTIP in 2007, awards were no longer granted under the 2006 Plan. The LTIP provides for grants of (a) incentive stock options qualified as such under U.S. federal income tax laws, (b) stock options that do not qualify as incentive stock options, (c) stock appreciation rights, (d) restricted stock awards, (e) performance awards, (f) phantom stock, (g) stock bonuses, (h) dividend equivalents, and (i) any combination of such awards.

All awards were made with an exercise price or base price, as the case may be, that was not less than the fair market value per share on the grant date. The grant date fair value of restricted stock awards and performance share awards with performance conditions not based on market conditions was equal to the closing market price of the Company's common stock on the date of grant. The grant date fair value of performance share awards with performance conditions based on market conditions was measured using a Monte Carlo simulation model.

During the nine months ended September 30, 2016, plan participants exercised 174,826 options with a weighted average exercise price of \$11.90. As of September 30, 2016, there are no options outstanding under the 2006 Plan.

During the nine months ended September 30, 2016, the Company granted 106,968 shares of restricted stock, which vest ratably over three years, at a weighted average grant date fair value of \$24.63. Additionally, 84,061 shares of restricted stock vested during the nine months ended September 30, 2016, at a weighted average grant date fair value of \$25.11.

During the nine months ended September 30, 2016, the Company granted 5,944 shares of phantom stock, which vest ratably over three years, at a weighted average grant date fair value of \$25.23. Additionally, 1,268 shares of phantom stock vested during the nine months ended September 30, 2016, at a weighted average grant date fair value of \$29.57.

During the nine months ended September 30, 2016, the Company granted 79,661 performance share awards, at target, which cliff vest on December 31, 2018. The grant of performance shares was split between performance metrics of return on invested capital ("ROIC"), an internal performance measure, and total shareholder return ("TSR"), a market performance measure.

The Company granted 45,940 ROIC-based awards, at target, on March 24, 2016 valued at \$24.50, the grant date closing price of the Company's stock. ROIC is defined as earnings before interest, net of taxes (net income plus interest, net of taxes), less any dividends, divided by stockholders' equity plus net debt (total debt less cash and marketable securities) at the beginning of the performance period.

The Company granted 33,721 TSR-based awards, at target, on March 24, 2016. TSR is defined as the change in the fair market value, adjusted for dividends, of a company's stock. The TSR of the Company's stock will be compared to the TSR of a peer group of companies defined at the time of the grant. The TSR awards are calculated using the average stock price of the 20 trading days prior to March 24, 2016 and compared to the average stock price of the 20 trading days prior to December 31, 2018. Because TSR is a market-based performance metric, the Company used a Monte Carlo simulation model to calculate the fair value of the grant, which resulted in a fair value of \$33.35 per award.



## 10. Segment Information

MYR Group is a specialty contractor serving the electrical infrastructure market in the United States and parts of Canada. The Company has two reporting segments, each a separate operating segment, which are referred to as T&D and C&I. Performance measurement and resource allocation for the reporting segments are based on many factors. The primary financial measures used to evaluate the segment information are contract revenues and income from operations, excluding general corporate expenses. General corporate expenses include corporate facility and staffing costs, which includes safety, professional fees, management fees, and intangible amortization. The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

*Transmission and Distribution:* The T&D segment provides a broad range of services on electric transmission and distribution networks and substation facilities, which include design, engineering, procurement, construction, upgrade, and maintenance and repair services, with a particular focus on construction, maintenance and repair. T&D services include the construction and maintenance of high voltage transmission lines, substations and lower voltage underground and overhead distribution systems. The T&D segment also provides emergency restoration services in response to hurricane, ice or other storm-related damage. T&D customers include investor-owned utilities, cooperatives, private developers, government-funded utilities, independent power producers, independent transmission companies, industrial facility owners and other contractors.

*Commercial and Industrial:* The C&I segment provides services such as the design, installation, maintenance and repair of commercial and industrial wiring, installation of traffic networks and the installation of bridge, roadway and tunnel lighting. Typical C&I contracts cover electrical contracting services for airports, hospitals, data centers, hotels, stadiums, convention centers, manufacturing plants, processing facilities, waste-water treatment facilities, mining facilities, office buildings, high density residential housing and transportation control and management systems. C&I segment services are generally performed in the western and northeastern United States.

The information in the following table was derived from internal financial reports used for corporate management purposes:

<u>(In thousands)</u>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Contract revenues:				
T&D	\$206,441	\$203,864	\$568,044	\$593,670
C&I	76,818	65,997	230,783	196,827
	\$283,259	\$269,861	\$798,827	\$790,497
Income from operations:				
T&D	\$14,550	\$13,929	\$40,804	\$47,476
C&I	5,043	2,780	9,633	9,540
General Corporate	(8,454 )	(6,790 )	(26,849 )	(22,476 )
	\$11,139	\$9,919	\$23,588	\$34,540

For the three and nine months ended September 30, 2016, contract revenues attributable to the Company's Canadian operations were \$9.4 million and \$15.9 million, respectively. For the three and nine months ended September 30, 2015, contract revenues attributable to the Company's Canadian operations were \$0.3 million and \$0.6 million, respectively. The Company's Canadian revenues are predominantly in the T&D segment.

## 11. Earnings Per Share

The Company computes earnings per share using the treasury stock method unless the two-class method is more dilutive. The Company computed earnings per share for the three and nine months ended September 30, 2016 using the treasury stock method. Under the treasury stock method, basic earnings per share are computed by dividing net income available to shareholders by the weighted average number of common shares outstanding during the period, and diluted earnings per share are computed by dividing net income available to shareholders by the weighted average number of common shares outstanding during the period plus all potentially dilutive common stock equivalents, except in cases where the effect of the common stock equivalent would be anti-dilutive.

For the three and nine months ended September 30, 2015, the Company computed earnings per share using the two-class method because that method resulted in a more dilutive effect than the treasury stock method. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under the two-class method, the Company's unvested grants of restricted stock that contained non-forfeitable rights to dividends were

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treated as participating securities and were excluded from the computation of basic and diluted earnings per share. All shares of restricted stock granted since 2013 are not participating because the grant agreements contain provisions that dividends, if declared, will be forfeited if the grantee leaves the Company before the stock is vested.

Net income available to common shareholders and the weighted average number of common shares used to compute basic and diluted earnings per share were as follows:

(In thousands, except per share data)	Three months ended		Nine months ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Numerator:				
Net income	\$6,146	\$6,175	\$13,633	\$21,421
Less: Net income allocated to participating securities	—	(25 )	—	(103 )
Net income available to common shareholders	\$6,146	\$6,150	\$13,633	\$21,318
Denominator:				
Weighted average common shares outstanding	15,805	20,788	17,489	20,662
Weighted average dilutive securities	372	426	328	451
Weighted average common shares outstanding, diluted	16,177	21,214	17,817	21,113
Income per common share, basic	\$0.39	\$0.30	\$0.78	\$1.03
Income per common share, diluted	\$0.38	\$0.29	\$0.77	\$1.01

For the three and nine months ended September 30, 2016 and 2015, certain common stock equivalents were excluded from the calculation of dilutive securities because their inclusion would either have been anti-dilutive or, for stock options, the exercise prices of those stock options were greater than the average market price of the Company's common stock for the period. All of the Company's non-participating unvested restricted shares were included in the computation of weighted average dilutive securities. The following table summarizes the shares of common stock underlying the Company's unvested stock options and performance awards that were excluded from the calculation of dilutive securities:

	Three months ended September 30, 2016		Nine months ended September 30, 2015	
<u>(In thousands)</u>	2016	2015	2016	2015
Stock options	—	4	86	2
Restricted stock	6	—	6	—
Performance awards	2	35	83	35

### *Share Repurchases*

During 2016, the Company's Board of Directors approved two amendments to the share repurchase program ("Repurchase Program"), which increased the Repurchase Program from \$67.5 million to \$162.5 million and extended the term of the program through August 15, 2017. During the nine months ended September 30, 2016, the Company repurchased 4,227,541 shares of its common stock at a weighted-average price of \$23.79 per share; 4,189,858 of those shares were purchased under its Repurchase Program for approximately \$99.8 million. Additionally, the Company repurchased 37,683 shares of stock, for approximately \$0.9 million, from its employees to satisfy tax obligations on shares vested under the LTIP. All of the shares repurchased were retired and returned to authorized but unissued stock.

## **12. Subsequent Events**

On October 28, 2016, the Company completed the acquisition of substantially all of the assets of Western Pacific Enterprises GP and of Western Pacific Enterprises Ltd., except for certain real estate owned by Western Pacific Enterprises Ltd., which conducted business as Western Pacific Enterprises GP ("WPE"), an electrical contracting firm in western Canada. Headquartered in Coquitlam, British Columbia, WPE will provide a wide range of commercial and industrial electrical construction capabilities under the Company's C&I segment. WPE will also provide substation construction capabilities under the Company's T&D segment. The total consideration paid was approximately \$16.1

million CDN, subject to working capital adjustments, which was funded through borrowings on the 2016 Facility. Additionally, there could also be contingent payments based on the successful achievement of certain performance targets and continued employment of certain key executives of WPE. These payments will be recognized as compensation expense in the consolidated statement of operations and comprehensive income as earned over the period achievement becomes probable. As this transaction was effective on October 28, 2016, the results of WPE will be included in the Company's consolidated financial statements beginning on such date. The Company does not expect WPE's revenues or profits to be material to the Company's 2016 operating results. Approximately \$0.1 million of acquisition-related costs associated with this acquisition were expensed by the Company in the nine months ended September 30, 2016.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and with our Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 Annual Report"). In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed herein under the captions "Cautionary Statement Concerning Forward-Looking Statements and Information" and "Risk Factors," as well as in the 2015 Annual Report. We assume no obligation to update any of these forward-looking statements.*

### Overview and Outlook

We are a leading specialty contractor serving the electrical infrastructure market throughout the United States. We also have operations in parts of Canada. We manage and report our operations through two industry segments: T&D and C&I. We have operated in the T&D industry since 1891. We are one of the largest contractors servicing the T&D sector of the electric utility industry in the United States, and our customers include many of the leading companies in the electric industry. We provide C&I electrical contracting services to facility owners and general contractors generally in the western and northeastern United States. We have operated in the C&I industry since 1912. We strive to maintain our status as a preferred provider to our T&D and C&I customers.

We had consolidated revenues for the nine months ended September 30, 2016 of \$798.8 million, of which 71.1% was attributable to our T&D customers and 28.9% was attributable to our C&I customers. Our consolidated revenues for nine months ended September 30, 2015 were \$790.5 million. For the nine months ended September 30, 2016, our net income and EBITDA (1) were \$13.6 million and \$52.7 million, respectively, compared to \$21.4 million and \$62.9 million, respectively, for the nine months ended September 30, 2015.

We expect bidding activity to remain strong in both our T&D and C&I segments for the remainder of 2016 and 2017. Although bidding remains highly competitive in our T&D segment, we expect that our centralized fleet and skilled workforce will continue to benefit us in securing and executing profitable projects. The sizes of the T&D projects we are currently performing are generally smaller and of shorter duration than those experienced a few years ago. These smaller, shorter duration projects often result in lower margins because of greater competition, reduced fleet utilization and the cost of transitioning from project to project. While the transmission projects being bid this year represent a mix of projects, including a number of larger, longer duration projects, there is often a significant lag from when a project is awarded to when the revenues and costs are recognized. Several of the recently bid larger, longer-duration projects contain a higher percentage of material and subcontractor costs when compared to recent history, and we typically add less mark-up to material and subcontractor costs in our bid estimates than the mark-up

applied to our labor and owned equipment. This could lead to lower overall margins depending on our awarded portfolio of work. Additionally, competition, project execution, adverse weather and project delays, among other factors, have impacted our margins in the past and could affect our margins in the future. Spending by clients on their distribution systems appears to be generally improving; however, this spending can be highly variable from quarter to quarter in response to weather, client budget constraints and regulatory pressures. Contract margins and fleet billing rates are generally lower in our distribution business than what we realize in our transmission business.

The C&I segment continues to benefit from robust bidding activity, and we continue to explore further expansion into new markets. The C&I segment, in part due to intense competition, has not provided overall contract margin opportunities comparable to our T&D segment.

In 2015, we began to implement a three-pronged strategy of organic growth, strategic acquisitions that further expand our capabilities and prudent capital returns as further detailed below.

*Organic Growth* In 2015, we expanded our operations, opening six new offices in the United States located in California, Kansas, Nevada, Texas and Washington State. We also started operations in Canada and began work on our first major project award in Canada earlier in 2016. We continue to look for opportunities to expand our operations into new markets in the United States and Canada.

(1) EBITDA is a non-GAAP measure. Refer to “Non-GAAP Measure—EBITDA” for a discussion of this measure.

A few of our new organic growth initiatives are progressing slower than expected due to the timing of contract awards and penetration of the new market, which resulted in uncovered fixed costs in the first nine months ended September 30, 2016. Despite slower starts in these markets, we continue to see improvements in these organic growth initiatives during the three months ended September 30, 2016, and we believe that this strategy to grow the business will result in positive growth and enhance shareholder value.

*Strategic Acquisitions* On October 28, 2016, we acquired substantially all of the assets of Western Pacific Enterprises (“WPE”) and in 2015, we acquired substantially all of the assets of E.S. Boulos Company (“ESB”) and all of the outstanding common stock of High Country Line Construction, Inc. (“HCL”). The acquisition of ESB and HCL has enhanced our T&D presence in the northeast and western United States and further expanded our C&I presence into the northeast United States. WPE will expand our C&I and T&D presence in western and central Canada. We continue to look for acquisition opportunities that are compatible with our culture while enhancing shareholder value.

*Prudent Capital Returns* In February 2016, we increased the share Repurchase Program by \$75.0 million to \$142.5 million and revised provisions of the Repurchase Program to enable us to accelerate the pace of share repurchases. On July 12, 2016, we exhausted the remaining availability under the Repurchase Program under which we repurchased a total of 6,024,978 shares of our common stock for \$142.5 million at an average share price of \$23.64 per share. Subsequently, in July 2016 we increased the Repurchase Program by \$20.0 million to \$162.5 million and extended the terms of the Repurchase Program to August 15, 2017. Additionally, we continue to evaluate our capital allocation strategy of reducing future capital spending while expanding our fleet through alternative financing approaches, such as leasing. In March 2016, we entered into master lease arrangements and began to lease vehicles and equipment under these arrangements. We continue to look for opportunities to improve our resource allocation to enhance shareholder value.

We continue to invest in developing key management and craft personnel in both our T&D and C&I markets and in procuring the specialty equipment and tooling needed to win and execute projects of all sizes and complexity. We ended the third quarter of 2016 with \$192.3 million available under our 2016 Facility. We believe that our financial position and operational strengths will enable us to manage the current challenges and uncertainties in the markets we serve and give us the flexibility to successfully execute our three-pronged strategy.

## **Backlog**

We define backlog as our estimated revenue on uncompleted contracts, including the amount of revenue on contracts for which work has not begun, less the revenue we have recognized under these contracts. A customer’s intention to award us work under a fixed-price contract is not included in backlog unless there is an actual award to perform a specific scope of work at specific terms and pricing. For many of our unit-price, time-and-equipment, time-and-materials and cost plus contracts, we only include projected revenue for a three-month period in the



calculation of backlog, although these types of contracts are generally awarded as part of master service agreements that typically have a one-year to three-year duration from execution. Backlog may not accurately represent the revenues that we expect to realize during any particular period. Several factors such as the timing of contract awards, the type and duration of contracts, and the mix of subcontractor and material costs in our projects can impact our backlog at any point in time. Some of our revenue does not appear in our periodic backlog reporting because the award of the project, as well as the execution of the work, may all take place within the period. Our backlog only includes projects that have a signed contract or an agreed upon work order to perform work on mutually accepted terms and conditions. Backlog should not be relied upon as a stand-alone indicator of future events.

Our backlog was \$620.6 million at September 30, 2016 compared to \$475.0 million at June 30, 2016 and \$425.1 million at September 30, 2015. Our backlog at September 30, 2016 increased \$145.6 million or 30.6% from June 30, 2016. Backlog in the T&D segment increased \$132.3 million and C&I backlog increased \$13.3 million compared to June 30, 2016. The increase in backlog was primarily due to the multi-year Cross Texas Transmission contract of approximately \$125 million, which we were awarded in the third quarter of 2016.

The following table summarizes that amount of our backlog that we believe to be firm as of the dates shown and the amount of our current backlog that we reasonably estimate will not be recognized within the next twelve months:

		Backlog at September 30, 2016	
<u>(In thousands)</u>	Total	Amount estimated to not be recognized within 12 months	Total backlog at December 31, 2015
T&D	\$436,943	\$ 43,573	\$ 323,570
C&I	183,673	11,206	127,364
Total	\$620,616	\$ 54,779	\$ 450,934

### Project Bonding Requirements

A substantial portion of our business requires performance and payment bonds or other means of financial assurance to secure contractual performance. These bonds are typically issued at the face value of the contract awarded. If we fail to perform or pay our subcontractors or vendors, the customer may demand that the surety provide services or make payments under the bond. In such a case, we would likely be required to reimburse the surety for any expenses or outlays it incurs. To date, we have not been required to make any reimbursements to our surety for claims against the surety bonds. As of September 30, 2016, we had approximately \$910.1 million in original face amount of surety bonds outstanding. Our estimated remaining cost to complete these bonded projects was approximately \$71.6 million as of September 30, 2016.

### Consolidated Results of Operations

The following table sets forth selected consolidated statements of operations data and such data as a percentage of revenues for the periods indicated:

Three months ended September 30,		Nine months ended September 30,	
2016	2015	2016	2015

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<u>(Dollars in thousands)</u>	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Contract revenues	\$283,259	100.0 %	\$269,861	100.0 %	\$798,827	100.0 %	\$790,497	100.0 %
Contract costs	249,196	88.0	241,241	89.4	706,048	88.4	700,767	88.6
Gross profit	34,063	12.0	28,620	10.6	92,779	11.6	89,730	11.4
Selling, general and administrative expenses	23,203	8.2	18,974	7.0	69,579	8.7	56,513	7.2
Amortization of intangible assets	188	0.1	84	—	691	0.1	251	—
Gain on sale of property and equipment	(467 )	(0.2 )	(357 )	(0.1 )	(1,079 )	(0.1 )	(1,574 )	(0.2 )
Income from operations	11,139	3.9	9,919	3.7	23,588	2.9	34,540	4.4
Other income (expense)								
Interest income	—	—	8	—	5	—	23	—
Interest expense	(408 )	(0.1 )	(180 )	(0.1 )	(833 )	(0.1 )	(546 )	(0.1 )
Other, net	(417 )	(0.1 )	438	0.2	(361 )	—	349	—
Income before provision for income taxes	10,314	3.7	10,185	3.8	22,399	2.8	34,366	4.3
Income tax expense	4,168	1.5	4,010	1.5	8,766	1.1	12,945	1.6
Net income	\$6,146	2.2 %	\$6,175	2.3 %	\$13,633	1.7 %	\$21,421	2.7 %

**Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015**

*Revenues.* Revenues increased \$13.4 million, or 5.0%, to \$283.3 million for the three months ended September 30, 2016 from \$269.9 million for the three months ended September 30, 2015. The increase was primarily due to organic and acquisitive growth, partially offset by lower revenue from large, multi-year contracts as further discussed below.

*Gross margin.* Gross margin increased to 12.0% for the three months ended September 30, 2016 from 10.6% for the three months ended September 30, 2015. The increase in gross margin was largely due to favorable close-outs and improved performance on several projects, offset by inclement weather experienced on certain other projects. Gross margin in the three months ended September 30, 2015 was negatively impacted by lower bid margins caused by a higher mix of shorter duration jobs and underperformance on certain jobs. Changes in estimates of gross profit on certain projects resulted in a net gross margin increase of 0.7% and a decrease of 0.5% for the three months ended September 30, 2016 and 2015, respectively.

*Gross profit.* Gross profit increased \$5.4 million, or 19.0%, to \$34.1 million for the three months ended September 30, 2016 from \$28.6 million for the three months ended September 30, 2015, due to higher revenue and gross margin.

*Selling, general and administrative expenses.* Selling, general and administrative expenses, which were \$23.2 million for the three months ended September 30, 2016, increased \$4.2 million from \$19.0 million for the three months ended September 30, 2015. The year-over-year increase included \$1.9 million of costs associated with our expansion into new geographic markets, as well as higher bonus and profit sharing costs, and increases in other payroll costs to support new and existing operations. As a percentage of revenues, selling, general and administrative expenses increased to 8.2% for the three months ended September 30, 2016 from 7.0% for the three months ended September 30, 2015.

*Gain on sale of property and equipment.* Gains from the sale of property and equipment in the three months ended September 30, 2016 were \$0.5 million compared to \$0.4 million in the three months ended September 30, 2015. Gains from the sale of property and equipment are attributable to routine sales of property and equipment no longer useful or valuable to our ongoing operations.

*Interest expense.* Interest expense was \$0.4 million for the three months ended September 30, 2016 compared to \$0.2 million in the three months ended September 30, 2015. This increase is primarily attributable to borrowings on our line of credit during the three months ended September 30, 2016.

*Provision for income taxes.* The provision for income taxes was \$4.2 million for the three months ended September 30, 2016, with an effective tax rate of 40.4%, compared to a provision of \$4.0 million for the three months ended September 30, 2015, with an effective tax rate of 39.4%. The increase in the effective rate was primarily caused by the year to date impact of lower domestic activities deductions and changes in the mix of business between states.

*Net income.* Net income decreased slightly to \$6.1 million for the three months ended September 30, 2016 from \$6.2 million for the three months ended September 30, 2015. The decrease was primarily for the reasons described above.

## **Segment Results**

The following table sets forth statements of operations data by segment:

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<u>(Dollars in thousands)</u>	Three months ended September 30,			
	2016		2015	
	Amount	Percent	Amount	Percent
Contract revenues:				
Transmission & Distribution	\$206,441	72.9 %	\$203,864	75.5 %
Commercial & Industrial	76,818	27.1	65,997	24.5
Total	\$283,259	100.0	\$269,861	100.0
Operating income (loss):				
Transmission & Distribution	\$14,550	7.0	\$13,929	6.8
Commercial & Industrial	5,043	6.6	2,780	4.2
Total	19,593	6.9	16,709	6.2
Corporate	(8,454 )	(3.0 )	(6,790 )	(2.5 )
Consolidated	\$11,139	3.9 %	\$9,919	3.7 %

*Transmission & Distribution*

Revenues for our T&D segment for the three months ended September 30, 2016 were \$206.4 million compared to \$203.9 million for the three months ended September 30, 2015, an increase of \$2.5 million, or 1.3%. The increase in revenue was primarily due to organic and acquisitive growth, partially offset by a decline in revenue from large, multi-year transmission projects.

Revenues from transmission projects represented 71.9% and 70.9% of T&D segment revenue for the three months ended September 30, 2016 and 2015, respectively. Additionally, for the three months ended September 30, 2016, measured by revenue in our T&D segment, we provided 60.9% of our T&D services under fixed-price contracts, as compared to 46.6% for the three months ended September 30, 2015.

Operating income for our T&D segment for the three months ended September 30, 2016 was \$14.6 million, an increase of \$0.6 million from the three months ended September 30, 2015. The increase in operating income was due to higher revenues and improved margins, partially offset by costs associated with our expansion into new geographic markets. The margin improvement was largely due to favorable close-outs and improved performance on several projects, offset by inclement weather experienced on certain other projects. As a percentage of revenues, operating income for our T&D segment was 7.0% for the three months ended September 30, 2016 compared to 6.8% for the three months ended September 30, 2015.

#### *Commercial & Industrial*

Revenues for our C&I segment for the three months ended September 30, 2016 were \$76.8 million compared to \$66.0 million for the three months ended September 30, 2015, an increase of \$10.8 million or 16.4%, primarily due to organic growth and acquisitive expansion into new markets.

Measured by revenue in our C&I segment, we provided 53.5% of our services under fixed-price contracts for the three months ended September 30, 2016, compared to 69.2% in the three months ended September 30, 2015.

Operating income for our C&I segment for the three months ended September 30, 2016 was \$5.0 million, an increase of \$2.2 million from the three months ended September 30, 2015. The quarter-over-quarter increase in operating income was primarily attributable to higher revenues and improved performance on certain jobs in the three months ended September 30, 2016 versus certain underperforming jobs during the same period in the prior year. These increases were partially offset by costs associated with our expansion into new geographic markets. As a percentage of revenues, operating income for our C&I segment was 6.6% for the three months ended September 30, 2016 compared to 4.2% for the three months ended September 30, 2015.

#### **Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015**

*Revenues.* Revenues increased \$8.3 million, or 1.1%, to \$798.8 million for the nine months ended September 30, 2016 from \$790.5 million for the nine months ended September 30, 2015. Organic and acquisitive growth contributed to the revenue increase which was partially offset by lower revenue from large, multi-year contracts.

*Gross margin.* Gross margin increased to 11.6% for the nine months ended September 30, 2016 from 11.4% for the nine months ended September 30, 2015. The increase in gross margin was largely due to favorable close-outs and

improved performance on several projects. This was partially offset by lower bid margins caused by increased competition in many of our markets and an increase in shorter duration projects (which can affect labor productivity, fleet utilization, mobilization costs and demobilization costs) and write-downs due to unrecognized, pending project change orders and a project claim, inclement weather and lower productivity experienced on certain projects. Changes in estimates of gross profit on certain projects resulted in a gross margin decrease of 0.5% and an increase of 0.5% for the nine months ended September 30, 2016 and 2015, respectively.

*Gross profit.* Gross profit increased \$3.1 million, or 3.4%, to \$92.8 million for the nine months ended September 30, 2016 from \$89.7 million for the nine months ended September 30, 2015, due to higher revenue and gross margin.

*Selling, general and administrative expenses.* Selling, general and administrative expenses, which were \$69.6 million for the nine months ended September 30, 2016, increased \$13.1 million from \$56.5 million for the nine months ended September 30, 2015. The year-over-year increase was primarily due to \$7.2 million of costs associated with our expansion into new geographic markets, \$1.0 million associated with activist investor activities, increased bonus costs and higher payroll costs to support new and existing operations. As a percentage of revenues, selling, general and administrative expenses increased to 8.7% for the nine months ended September 30, 2016 from 7.2% for the nine months ended September 30, 2015.

*Gain on sale of property and equipment.* Gains from the sale of property and equipment in the nine months ended September 30, 2016 were \$1.1 million compared to \$1.6 million in the nine months ended September 30, 2015. Gains from the sale of property and equipment are attributable to routine sales of property and equipment no longer useful or valuable to our ongoing operations.

*Interest expense.* Interest expense was \$0.8 million for the nine months ended September 30, 2016 compared to \$0.5 million in the nine months ended September 30, 2015. This increase is primarily attributable to the borrowings on our line of credit during the nine months ended September 30, 2016.

*Provision for income taxes.* The provision for income taxes was \$8.8 million for the nine months ended September 30, 2016, with an effective tax rate of 39.1%, compared to a provision of \$12.9 million for the nine months ended September 30, 2015, with an effective tax rate of 37.7%. The increase in the effective rate was primarily caused by the year to date impact of lower domestic activities deductions and changes in the mix of business between states.

*Net income.* Net income decreased to \$13.6 million for the nine months ended September 30, 2016 from \$21.4 million for the nine months ended September 30, 2015. The decrease was primarily for the reasons described above.

## Segment Results

The following table sets forth statements of operations data by segment:

<u>(Dollars in thousands)</u>	Nine months ended September 30,			
	2016		2015	
	Amount	Percent	Amount	Percent
Contract revenues:				
Transmission & Distribution	\$568,044	71.1 %	\$593,670	75.1 %
Commercial & Industrial	230,783	28.9	196,827	24.9
Total	\$798,827	100.0	\$790,497	100.0
Operating income (loss):				
Transmission & Distribution	\$40,804	7.2	\$47,476	8.0
Commercial & Industrial	9,633	4.2	9,540	4.8
Total	50,437	6.3	57,016	7.2
Corporate	(26,849 )	(3.4 )	(22,476 )	(2.8 )
Consolidated	\$23,588	3.0 %	\$34,540	4.4 %

### *Transmission & Distribution*

Revenues for our T&D segment for the nine months ended September 30, 2016 were \$568.0 million compared to \$593.7 million for the nine months ended September 30, 2015, a decrease of \$25.7 million, or 4.3%. The decrease in revenue was primarily due to a decline in revenue from large, multi-year transmission projects, partially offset by organic and acquisitive growth.

Revenues from transmission projects represented 74.6% of T&D segment revenue for both the nine months ended September 30, 2016 and 2015. Additionally, for the nine months ended September 30, 2016, measured by revenue in our T&D segment, we provided 58.7% of our T&D services under fixed-price contracts, as compared to 48.1% for the nine months ended September 30, 2015.



Operating income for our T&D segment for the nine months ended September 30, 2016 was \$40.8 million, a decrease of \$6.7 million from the nine months ended September 30, 2015. The year-over-year decline in operating income was primarily due lower margins and reduced revenue. There were fewer favorable close-outs of large, multi-year transmission projects in the first nine months of 2016, as compared to the first nine months of 2015. In recent quarters, the T&D segment experienced lower bid margins caused by increased competition in many of our markets and an increase in the number of shorter duration projects (which can affect labor productivity, fleet utilization, mobilization costs and demobilization costs). Additionally, in the nine months ended September 30, 2016, certain projects underperformed due to pending project change orders, labor productivity below previous estimates and unfavorable weather conditions in certain markets. We also experienced costs associated with the expansion into new geographic markets. As a percentage of revenues, operating income for our T&D segment was 7.2% for the nine months ended September 30, 2016 compared to 8.0% for the nine months ended September 30, 2015.

#### *Commercial & Industrial*

Revenues for our C&I segment for the nine months ended September 30, 2016 were \$230.8 million compared to \$196.8 million for the nine months ended September 30, 2015, an increase of \$34.0 million or 17.3%, primarily due to organic and acquisitive expansion into new markets.

Measured by revenue in our C&I segment, we provided 62.7% of our services under fixed-price contracts for the nine months ended September 30, 2016, compared to 70.3% in the nine months ended September 30, 2015.

Operating income for our C&I segment for the nine months ended September 30, 2016 was \$9.6 million, an increase of \$0.1 million over the nine months ended September 30, 2015. The year-over-year increase in operating income was primarily attributable to higher revenues, partially offset by a pending project claim, productivity below estimates on certain projects, and costs associated with expansion into new geographic markets. As a percentage of revenues, operating income for our C&I segment was 4.2% for the nine months ended September 30, 2016 compared to 4.8% for the nine months ended September 30, 2015.

**Non-GAAP Measure—EBITDA**

EBITDA, a performance measure used by management, is defined as net income plus: interest income and expense, provision for income taxes and depreciation and amortization, as shown in the following table. EBITDA, a non-GAAP financial measure, does not purport to be an alternative to net income as a measure of operating performance or to net cash flows provided by operating activities as a measure of liquidity. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly-titled measures of other companies. We use, and we believe investors benefit from the presentation of, EBITDA in evaluating our operating performance because it provides us and our investors with an additional tool to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. We believe that EBITDA is useful to investors and other external users of our financial statements in evaluating our operating performance and cash flow because EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, book lives placed on assets, capital structure and the method by which assets were acquired.

Using EBITDA as a performance measure has material limitations as compared to net income, or other financial measures as defined under U.S. GAAP, as it excludes certain recurring items, which may be meaningful to investors. EBITDA excludes interest expense or interest income; however, as we have borrowed money to finance transactions and operations, or invested available cash to generate interest income, interest expense and interest income are elements of our cost structure and can affect our ability to generate revenue and returns for our stockholders. Further, EBITDA excludes depreciation and amortization; however, as we use capital and intangible assets to generate revenues, depreciation and amortization are a necessary element of our costs and ability to generate revenue. Finally, EBITDA excludes income taxes; however, as we are organized as a corporation, the payment of taxes is a necessary element of our operations. As a result of these exclusions from EBITDA, any measure that excludes interest expense, interest income, depreciation and amortization and income taxes has material limitations as compared to net income. When using EBITDA as a performance measure, management compensates for these limitations by comparing EBITDA to net income in each period, to allow for the comparison of the performance of the underlying core operations with the overall performance of the company on a full-cost, after tax basis. Using both EBITDA and net income to evaluate the business allows management and investors to (a) assess our relative performance against our competitors and (b) monitor our capacity to generate returns for our stockholders.

The following table provides a reconciliation of net income to EBITDA:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2016	2015	2016	2015

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Net Income	\$6,146	\$6,175	\$13,633	\$21,421
Add:				
Interest expense, net	408	172	828	523
Income tax expense	4,168	4,010	8,766	12,945
Depreciation & amortization	9,748	9,699	29,438	28,018
EBITDA	\$20,470	\$20,056	\$52,665	\$62,907

We also use EBITDA as a liquidity measure. We believe that EBITDA is important for evaluating our ability to comply with certain material covenants contained within our credit agreement (the “Credit Agreement”). Non-compliance with these financial covenants under the Credit Agreement—our interest coverage ratio which is defined in the Credit Agreement as Consolidated EBITDA (as defined in the Credit Agreement) divided by interest expense and our Leverage Ratio (as defined in the Credit Agreement)—could result in our lenders requiring us to immediately repay all amounts borrowed. If we anticipated a potential covenant violation, we would seek relief from our lenders, likely causing us to incur additional cost, and such relief might not be available, or if available, might not be on terms as favorable as those in the Credit Agreement. In addition, if we cannot satisfy these financial covenants, we would be prohibited under the Credit Agreement from engaging in certain activities, such as incurring additional indebtedness, making certain payments, and acquiring or disposing of assets. Based on the information above, management believes that the presentation of EBITDA as a liquidity measure is useful to investors and relevant to their assessment of our capacity to service or incur debt, fund capital expenditures, finance acquisitions and expand our operations.

The following table provides a reconciliation of net cash flows provided by operating activities to EBITDA:

(In thousands)	Three months ended		Nine months ended	
	September 30, 2016	2015	September 30, 2016	2015
Provided By Operating Activities:				
Net cash flows provided by operating activities	\$(5,965 )	\$1,666	\$40,497	\$10,695
Add/(subtract):				
Changes in operating assets and liabilities	22,239	14,979	4,829	41,002
Adjustments to reconcile net income to net cash flows provided by operating activities	(10,128)	(10,470)	(31,693)	(30,276)
Depreciation & amortization	9,748	9,699	29,438	28,018
Provision for income taxes	4,168	4,010	8,766	12,945
Interest expense, net	408	172	828	523
EBITDA	\$20,470	\$20,056	\$52,665	\$62,907

## Liquidity and Capital Resources

As of September 30, 2016, we had working capital of \$87.6 million. We define working capital as current assets less current liabilities. Our working capital at September 30, 2016 increased \$20.8 million or 31.1% from June 30, 2016, due to the contractual milestone billing terms of a large, multi-year project and other working capital changes. During the nine months ended September 30, 2016, operating activities of our business provided net cash of \$40.5 million, compared to \$10.7 million of cash provided in the nine months ended September 30, 2015. Cash flow from operations is primarily influenced by demand for our services, operating margins, timing of contract performance and the type of services we provide to our customers. The changes in various working capital accounts (such as: accounts receivable, including retention; costs and estimated earnings in excess of billings on uncompleted contracts; accounts payable; and billings in excess of costs and estimated earnings on uncompleted contracts) are due to both the volume and timing of work performed, the mix of the types of projects and customers and their varying billing requirements as well as settlements of payables and other obligations.

The gross amount of accounts receivable, net; costs and estimated earnings in excess of billings on uncompleted contracts; accounts payable; and billings in excess of costs and estimated earnings on uncompleted contracts used cash of \$10.5 million in the nine months ended September 30, 2016, compared to the \$32.5 million of cash used in the nine months ended September 30, 2015, a year-over-year decrease in cash used of \$22.0 million. These working capital changes were primarily due to a favorable cash flow change of \$26.1 million in our accounts receivable, which was the result of lower contract retainages and improved billing and collection procedures for several of our new clients. In addition, we experienced a favorable year-over-year cash flow change of \$2.5 million relating to our costs and estimated earnings in excess of billings, due to more favorable contractual billing terms on certain projects. The

improvements in these working capital components were partially offset by an unfavorable year-over-year cash flow change of \$6.0 million relating to our accounts payable which was the result of normal payment timing differences based on the status and contract terms of certain projects and an unfavorable year-over year cash flow change of \$0.6 million relating to our billings in excess of costs and estimated earnings on uncompleted contracts. In addition, we experienced favorable cash flow changes of \$8.2 million and \$4.8 million in our other assets and other liabilities, respectively. The favorable cash flow change in other assets was primarily due to a decrease in refundable taxes as well as a reduction in prepaid insurance. The favorable cash flow change in other liabilities was primarily due to unfavorable cash flow changes during the nine months ended September 30, 2015, related to the payment and reduction of accrued bonus and profit sharing.

In the nine months ended September 30, 2016, we used net cash in investing activities of \$15.4 million, consisting of \$17.9 million for capital expenditures, partially offset by \$2.5 million of proceeds from the sale of equipment. In the nine months ended September 30, 2015, we used net cash in investing activities of \$52.2 million, consisting of \$42.8 million for capital expenditures and \$11.4 million to acquire ESB, partially offset by \$2.0 million of proceeds from the sale of equipment.

In the nine months ended September 30, 2016, we used net cash of \$64.4 million in financing activities, consisting primarily of \$101.5 million of cash used to purchase shares of our common stock, as well as \$1.0 million of cash used to pay debt issuance costs related to our new line of credit. These uses of cash were partially offset by borrowings of \$33.4 million under the line of credit, an increase in outstanding checks in excess of our bank balance, and proceeds from stock options and tax benefits related to our stock compensation programs. During 2016, our Board of Directors approved two amendments to our Repurchase Program, which increased the program from \$67.5 million to \$162.5 million and extended the term of the program through August 15, 2017. As of September 30, 2016, we had \$20.0 million of remaining availability to purchase shares under the Repurchase Program.

We anticipate that our \$192.3 million borrowing availability under our 2016 Facility, and future cash flow from operations will provide sufficient cash to enable us to meet our future operating needs, debt service requirements, capital expenditures, and acquisition and joint venture opportunities. We expect that our capital spending in 2016 will be lower than the last few years as we look to finance our fleet through an increased use of alternative financing approaches, such as leasing. Additionally, we expect repurchases of common stock will be at lower levels than experienced in 2015 and 2016. Although we believe that we have adequate cash and availability under our Credit Agreement to meet our liquidity needs, any large projects or acquisitions may require additional capital.

We have not historically paid dividends and currently do not expect to pay dividends.

### *Debt Instruments*

On June 30, 2016, we entered into a five-year amended and restated credit agreement (the “Credit Agreement”) with a facility of \$250 million (the “2016 Facility”) with a syndicate of banks led by JPMorgan Chase Bank, N.A. and Bank of America, N.A. The 2016 Facility may be used for revolving loans and letters of credit. The 2016 Facility also allows for revolving loans and letters of credit in Canadian dollars and other currencies, up to the U.S. dollar equivalent of \$50 million. We have an expansion option to increase the commitments under the 2016 Facility or enter into incremental term loans, subject to certain conditions, by up to an additional \$100 million upon receipt of additional commitments from new or existing lenders. Subject to certain exceptions, the 2016 Facility is secured by substantially all of our assets and the assets of our domestic subsidiaries and by a pledge of substantially all of the capital stock of our domestic subsidiaries and 65% of the capital stock of our direct foreign subsidiaries. Additionally, subject to certain exceptions, our domestic subsidiaries also guarantee the repayment of all amounts due under the Credit Agreement. If an event of default occurs and is continuing, on the terms and subject to the conditions set forth in the Credit Agreement, amounts outstanding under the 2016 Facility may be accelerated and may become or be declared immediately due and payable. Borrowings under the Credit Agreement were used to refinance existing debt and are expected to be used for working capital, capital expenditures, acquisitions and other general corporate purposes.

Amounts borrowed under the Credit Agreement in U.S. dollars bear interest, at our option, at a rate equal to either (1) the Alternate Base Rate (as defined in the Credit Agreement), plus an applicable margin ranging from 0.00% to 1.00%; or (2) Adjusted LIBO Rate (as defined in the Credit Agreement) plus an applicable margin ranging from 1.00% to 2.00%. Amounts borrowed under the Credit Agreement in any currency other than U.S. dollars will bear interest at a rate equal to the Adjusted LIBO Rate plus an applicable margin ranging from 1.00% to 2.00%. The applicable margin is determined based on our consolidated Leverage Ratio (as defined in the Credit Agreement). Letters of credit issued under the 2016 Facility are subject to a letter of credit fee of 1.125% to 2.125% for standby or commercial letters of credit or 0.625% to 1.125% for performance letters of credit, based on the our consolidated Leverage Ratio. We will also be subject to a commitment fee of 0.20% to 0.375% based on our consolidated Leverage Ratio on any unused portion of the 2016 Facility. The Credit Agreement restricts certain types of payments when our consolidated Leverage Ratio exceeds 2.25.

Under the Credit Agreement, we are subject to certain financial covenants and must maintain a maximum consolidated Leverage Ratio of 3.0 and a minimum interest coverage ratio of 3.0, which is defined in the Credit Agreement as Consolidated EBITDA (as defined in the Credit Agreement) divided by interest expense. The Credit Agreement also contains a number of covenants including limitations on asset sales, investments, indebtedness and liens. In connection with any permitted acquisition where the total consideration exceeds \$50 million, we may request that the maximum permitted consolidated Leverage Ratio increase from 3.0 to 3.5. Any such increase, if given effect, shall begin in the quarter in which such permitted acquisition is consummated and shall continue in effect for four consecutive fiscal quarters.

Prior to the amendment and restatement of the Credit Agreement, we had a five-year syndicated credit agreement with a facility of \$175.0 million (the “2011 Facility”). The 2011 Facility provided funds for revolving loans and the issuance of letters of credit and up to \$25.0 million for swingline loans.

As of September 30, 2016, we had \$33.4 million of debt outstanding under the 2016 Facility and irrevocable standby letters of credit outstanding of approximately \$24.3 million, including \$17.6 million related to our payment obligation under our insurance programs and approximately \$6.7 million related to contract performance obligations. As of December 31, 2015, we had no debt outstanding and irrevocable standby letters of credit outstanding of approximately \$19.3 million, including \$17.5 million related to the Company’s payment obligation under its insurance programs and approximately \$1.8 million related to contract performance obligations.

### **Off-Balance Sheet Transactions**

As is common in our industry, we enter into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected on our balance sheets. Our significant off-balance sheet transactions such as liabilities associated with non-cancelable operating leases, letter of credit obligations and surety guarantees could be entered into in the normal course of business. We have not engaged in any off-balance sheet financing arrangements through special purpose entities.

For a discussion regarding off-balance sheet transactions, refer to Note 8, “Commitments and Contingencies” in the accompanying Notes to Consolidated Financial Statements.

### **Concentration of Credit Risk**

We grant trade credit under normal payment terms, generally without collateral, to our customers, which include high credit quality electric utilities, governmental entities, general contractors and builders, owners and managers of commercial and industrial properties located in the United States. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States. However, we generally have certain statutory lien rights with respect to services provided. Under certain circumstances such as foreclosures or negotiated settlements, we may take title to the underlying assets in lieu of cash in settlement of receivables. As of September 30, 2016, none of our customers individually exceeded 10.0% of consolidated accounts receivable with approximately. As of September 30, 2015, one customer individually exceeded 10.0% of consolidated accounts receivable with approximately 11.7% of the total consolidated accounts receivable amount (excluding the impact of allowance for doubtful accounts). Management believes the terms and conditions in its contracts, billing and collection policies are adequate to minimize the potential credit risk.

### **New Accounting Pronouncements**

For a discussion regarding new accounting pronouncements, please refer to Note 1, “Organization, Business and Basis of Presentation—Recently Issued Accounting Pronouncements” in the accompanying Notes to Consolidated Financial Statements.

### **Critical Accounting Policies**



The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis, based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates. For further information regarding our critical accounting policies and estimates, please refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” included in our 2015 Annual Report.

### **Cautionary Statement Concerning Forward-Looking Statements and Information**

We are including the following discussion to inform you of some of the risks and uncertainties that can affect our company and to take advantage of the protections for forward-looking statements that applicable federal securities law affords.

Statements in this Quarterly Report on Form 10-Q contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), which represent our beliefs and assumptions concerning future events. When used in this document and in documents incorporated by reference, forward looking statements include, without limitation, statements regarding financial forecasts or projections, and our expectations, beliefs, intentions or future strategies that are signified by the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “objective,” “outlook,” “plan,” “project,” “possibly,” “potential,” “should” or other words that convey the uncertainty of future events or outcomes. The forward looking statements in this quarterly report on Form 10-Q speak only as of the date of this quarterly report on Form 10-Q. We disclaim any obligation to update these statements (unless required by securities laws), and we caution you not to rely on them unduly. We have based these forward looking statements on our current expectations and assumptions about future events. While we consider these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict, and many of which are beyond our control. These and other important factors, including those discussed under the caption “Forward-Looking Statements” and in Item 1A “Risk Factors” in our 2015 Annual Report, and in any risk factors or cautionary statements contained in our other filings with the Securities and Exchange Commission, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

These risks, contingencies and uncertainties include, but are not limited to, the following:

· Our operating results may vary significantly from period to period.

· Our industry is highly competitive.

· We may be unsuccessful in generating internal growth.

· Negative economic and market conditions, as well as regulatory and environmental requirements, may adversely impact our customers' future spending and, as a result, our operations and growth.

· Project performance issues, including those caused by third parties, or certain contractual obligations may result in additional costs to us, reductions or delays in revenues or the payment of penalties, including liquidated damages.

· Our business is labor intensive and we may be unable to attract and retain qualified employees.

· The timing of new contracts and termination of existing contracts may result in unpredictable fluctuations in our cash flows and financial results.

· Backlog may not be realized or may not result in profits and may not accurately represent future revenue.

· Our business growth could outpace the capability of our internal resources.

· Our dependence on suppliers, subcontractors and equipment manufacturers could expose us to the risk of loss in our operations.

· Our participation in joint ventures and other projects with third parties may expose us to liability for failures of our partners.

· Legislative or regulatory actions relating to electricity transmission and renewable energy may impact demand for our services.

Our use of percentage-of-completion accounting could result in a reduction or reversal of previously recognized profits.

·Our actual costs may be greater than expected in performing our fixed-price and unit-price contracts.

·Our financial results are based upon estimates and assumptions that may differ from actual results.

·The loss of a key customer could have an adverse affect on us.

·Our failure to comply with environmental and other laws and regulations could result in significant liabilities.

·Unavailability or cancellation of third party insurance coverage would increase our overall risk exposure and could disrupt our operations.

·We may incur liabilities and suffer negative financial or reputational impacts relating to occupational health and safety matters.

·We extend trade credit to customers for purchases of our services, and may have difficulty collecting receivables from them.

·We may not be able to compete for, or work on, certain projects if we are not able to obtain the necessary bonds, letters of credit, bank guarantees or other financial assurances.

·Inability to hire or retain key personnel could disrupt our business.

- Work stoppages or other labor issues with our unionized workforce could adversely affect our business.
- Multi-employer pension plan obligations related to our unionized workforce could adversely impact our earnings.
- We may fail to execute or integrate future acquisitions or joint ventures successfully.
- Our business may be affected by seasonal and other variations, including severe weather conditions.
- We may not have access in the future to sufficient funding to finance desired growth and operations.
- Our operations are subject to a number of operational risks which may result in unexpected costs or liabilities.
- Opportunities associated with government contracts could lead to increased governmental regulation applicable to us.
- Risks associated with operating in the Canadian market could restrict our ability to expand and harm our business and prospects.
- Our failure to comply with the laws applicable to our Canadian activities, including the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws could have an adverse effect on us.
- The nature of our business exposes us to warranty claims, which may reduce our profitability.
- Certain provisions in our organizational documents and Delaware law could delay or prevent a change in control of our company.
- We, or our business partners, may be subject to failures, interruptions or breaches of information technology systems, which could affect our competitive position or damage our reputation.
- Our stock price and trading volume may be volatile and future sales of our common stock could lead to dilution of our issued and outstanding common stock.
- We are subject to risks associated with climate change.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of September 30, 2016, we were not party to any derivative instruments. We did not use any material derivative financial instruments during the nine months ended September 30, 2016 and 2015, including trading or speculation on changes in interest rates or commodity prices of materials used in our business.

As of September 30, 2016, we had \$33.4 million of debt outstanding under the 2016 Facility. Borrowings under the 2016 Facility are based upon an interest rate that will vary depending upon the prime rate, federal funds rate and LIBOR. If the prime rate, federal funds rate or LIBOR increased, our interest payment obligations on outstanding borrowings would increase and have a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest when we have outstanding borrowings. If market rates of interest on all our revolving debt as of September 30, 2016, which is subject to variable rates, permanently increased by 1%, the increase in interest expense on all revolving debt would decrease future income before provision for income taxes and cash flows by approximately \$0.3 million annually. If market rates of interest on all our revolving debt, which is subject to variable rates as of September 30, 2016, permanently decreased by 1%, the decrease in interest expense on all debt would increase future income before provision for income taxes and cash flows by the same amount.

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Disclosure Controls and Procedures***

Under the supervision, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined under Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2016.

### ***Changes in Internal Control Over Financial Reporting***

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**PART II—OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

For further discussion regarding legal proceedings, please refer to Note 8, “Commitments and Contingencies—Litigation and Other Legal Matters” in the accompanying Notes to Consolidated Financial Statements.

**ITEM 1A. RISK FACTORS**

As of the date of this filing, there have been no material changes to the risk factors previously discussed in Item 1A of our 2015 Annual Report. An investment in our common stock involves various risks. When considering an investment in our company, you should carefully consider all of the risk factors described in our 2015 Annual Report. These risks and uncertainties are not the only ones facing us and there may be additional matters that are not known to us or that we currently consider immaterial. These risks and uncertainties could adversely affect our business, financial condition or future results and, thus, the value of our common stock and any investment in our company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

***Purchases of Common Stock.*** The following table includes all of the Company’s repurchases of common stock for the periods shown, including those made pursuant to publicly announced plans or programs and those not made pursuant to publicly announced plans or programs. Repurchased shares are retired and returned to authorized but unissued common stock.

Period	Total Number of Shares Repurchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
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July 1, 2016 - July 31, 2016	224,189	\$ 24.51	224,189	\$20,000,015
August 1, 2016 - August 31, 2016	—	\$ -	—	\$20,000,015
September 1, 2016 - September 30, 2016	—	\$ -	—	\$20,000,015
Total	224,189	\$ 24.51	224,189	

On August 1, 2012, the Company's Board of Directors authorized the repurchase of up to \$20.0 million of the Company's common stock ("Repurchase Program"), and the Company subsequently established a Rule 10b5-1 plan to facilitate this repurchase. This column includes all repurchases of common stock, including stock repurchased (1) under the Repurchase Program and stock repurchased outside the Repurchase Program. The Company's Board of Directors extended and increased the size of the Repurchase Program several times since 2012. In July 2016, the Company's Board of Directors approved an amendment of the Repurchase Program, which increased the size of the program from \$142.5 million to \$162.5 million and extended the term through August 15, 2017.

(2) Through September 30, 2016, the Company has purchased 6,024,978 shares under the Repurchase Program.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

### ITEM 5. OTHER INFORMATION

None.



## ITEM 6. EXHIBITS

Number	Description
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31.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a)†
31.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a)†
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350†
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350†

101.INS XBRL Instance Document \*

101.SCH XBRL Taxonomy Extension Schema Document\*

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document\*

101.DEF XBRL Taxonomy Extension Definition Linkbase Document\*

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*

†Filed herewith

\*Electronically filed

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MYR GROUP INC.  
(Registrant)

November 2, 2016 /s/ BETTY R. JOHNSON  
Senior Vice President, Chief Financial Officer and Treasurer