DYCOM INDUSTRIES INC
Form 10-Q
November 23, 2016

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 29, 2016

¨ 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 001-10613
DYCOM INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Florida	59-1277135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11780 US Highway 1, Suite 600, Palm Beach Gardens, FL	33408
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ 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 x

There were 31,465,914 shares of common stock with a par value of $0.33 1/3 outstanding at November 21, 2016.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.
DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)
(Unaudited)

	October 29, 2016	July 30, 2016
ASSETS		
Current assets:		
Cash and equivalents	$21,711	$33,787
Accounts receivable, net	329,786	328,030
Costs and estimated earnings in excess of billings	488,960	376,972
Inventories	81,054	73,606
Deferred tax assets, net	24,021	22,733
Other current assets	21,416	16,106
Total current assets	966,948	851,234
Property and equipment, net	337,653	326,670
Goodwill	308,669	310,157
Intangible assets, net	191,664	197,879
Other	33,473	33,776
Total non-current assets	871,459	868,482
Total assets	$1,838,407	$1,719,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$114,730	$115,492
Current portion of debt	17,500	13,125
Billings in excess of costs and estimated earnings	15,271	19,557
Accrued insurance claims	38,748	36,844
Income taxes payable	27,904	15,307
Other accrued liabilities	97,810	122,302
Total current liabilities	311,963	322,627
Long-term debt	774,501	706,202
Accrued insurance claims	54,557	52,835
Deferred tax liabilities, net non-current	79,395	76,587
Other liabilities	4,269	4,178
Total liabilities	1,224,685	1,162,429
COMMITMENTS AND CONTINGENCIES, Note 16		
Stockholders' equity:		
Preferred stock, par value $1.00 per share: 1,000,000 shares authorized: no shares issued and outstanding	—	—
Common stock, par value $0.33 1/3 per share: 150,000,000 shares authorized: 31,465,218 and 31,420,310 issued and outstanding, respectively	10,488	10,473

Additional paid-in capital	15,604	10,208
Accumulated other comprehensive loss	(1,300)	(1,274)
Retained earnings	588,930	537,880
Total stockholders’ equity	613,722	557,287
Total liabilities and stockholders’ equity	$1,838,407	$1,719,716

See notes to the condensed consolidated financial statements.

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DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share amounts)
(Unaudited)

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
REVENUES:		
Contract revenues	$799,223	$659,268
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	614,990	506,978
General and administrative (including stock-based compensation expense of $5.7 million and $4.5 million, respectively)	60,204	51,464
Depreciation and amortization	34,546	27,449
Total	709,740	585,891
Interest expense, net	(9,067)	(9,131)
Loss on debt extinguishment	—	(16,260)
Other income, net	940	1,469
Income before income taxes	81,356	49,455
Provision (benefit) for income taxes:		
Current	28,694	22,602
Deferred	1,612	(3,971)
Total provision for income taxes	30,306	18,631
Net income	$51,050	$30,824
Earnings per common share:		
Basic earnings per common share	$1.62	$0.94
Diluted earnings per common share	$1.59	$0.91
Shares used in computing earnings per common share:		
Basic	31,429,493	32,871,240
Diluted	32,200,287	33,886,747

See notes to the condensed consolidated financial statements.

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DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
Net income	$51,050	$ 30,824
Foreign currency translation losses, net of tax	(26)	(40)
Comprehensive income	$51,024	$ 30,784

See notes to the condensed consolidated financial statements.

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

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
OPERATING ACTIVITIES:		
Net income	$51,050	$ 30,824
Adjustments to reconcile net income to net cash used in operating activities, net of acquisitions:		
Depreciation and amortization	34,546	27,449
Deferred income tax provision (benefit)	1,612	(3,971)
Stock-based compensation	5,707	4,509
Bad debt expense, net	82	490
Gain on sale of fixed assets	(1,443)	(1,136)
Write-off of deferred financing fees and premium on long-term debt	—	2,017
Amortization of debt discount	4,307	1,780
Amortization of debt issuance costs and other	815	596
Excess tax benefit from share-based awards	(879)	(1,024)
Change in operating assets and liabilities:		
Accounts receivable, net	(2,404)	(35,497)
Costs and estimated earnings in excess of billings, net	(115,498)	(51,342)
Other current assets and inventory	(13,635)	(9,296)
Other assets	132	(844)
Income taxes receivable/payable	13,881	12,598
Accounts payable	1,083	7,875
Accrued liabilities, insurance claims, and other liabilities	(20,915)	(13,890)
Net cash used in operating activities	(41,559)	(28,862)
INVESTING ACTIVITIES:		
Capital expenditures	(40,080)	(40,758)
Proceeds from sale of assets	2,323	1,327
Changes in restricted cash	(463)	(479)
Cash paid for acquisitions, net of cash acquired	—	(48,596)
Net cash used in investing activities	(38,220)	(88,506)
FINANCING ACTIVITIES:		
Proceeds from borrowings on senior credit agreement, including term loans	206,000	317,000
Principal payments on senior credit agreement, including term loans	(138,000)	(281,000)
Proceeds from issuance of 0.75% convertible senior notes due 2021	—	485,000
Proceeds from sale of warrants	—	74,690
Purchase of convertible note hedges	—	(115,818)
Principal payments for satisfaction and discharge of 7.125% senior subordinated notes	—	(277,500)
Debt issuance costs	—	(14,494)
Repurchases of common stock	—	(69,997)
Exercise of stock options	202	139
Restricted stock tax withholdings	(1,378)	(1,168)
Excess tax benefit from share-based awards	879	1,024

Net cash provided by financing activities	67,703	117,876
Net (decrease) increase in cash and equivalents	(12,076)	508
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	33,787	21,289
CASH AND EQUIVALENTS AT END OF PERIOD	$21,711	$ 21,797

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

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid for interest	$4,924	$ 6,866
Cash paid for taxes, net	$15,381	$ 11,444
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	$6,870	$ 7,805
Non-cash debt issuance costs	$—	$ 993

See notes to the condensed consolidated financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

Basis of Presentation

Dycom Industries, Inc. ("Dycom" or the "Company") is a leading provider of specialty contracting services throughout the United States and in Canada. The Company provides program management, engineering, construction, maintenance and installation services for telecommunications providers, underground facility locating services for various utilities, including telecommunications providers, and other construction and maintenance services for electric and gas utilities.

The accompanying unaudited condensed consolidated financial statements include the results of Dycom and its subsidiaries, all of which are wholly-owned. All intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Operating results for the interim period are not necessarily indicative of the results expected for any other interim period or for the full fiscal year. These condensed consolidated financial statements and accompanying notes should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this report and the Company's audited financial statements for the year ended July 30, 2016 included in the Company's Annual Report on Form 10-K for the year ended July 30, 2016, filed with the SEC on August 31, 2016.

Segment Information – The Company operates in one reportable segment. Its services are provided by its operating segments on a decentralized basis. Each operating segment consists of a subsidiary (or in certain instances, the combination of two or more subsidiaries). Management of the operating segments report to the Company's Chief Operating Officer who reports to the Chief Executive Officer, the chief operating decision maker. All of the Company's operating segments have been aggregated into one reportable segment based on their similar economic characteristics, nature of services and production processes, type of customers, and service distribution methods. The Company's operating segments provide services throughout the United States and in Canada. Revenues from services provided in Canada were not material during the three months ended October 29, 2016 and October 24, 2015. Additionally, the Company had no material long-lived assets in Canada as of October 29, 2016 or July 30, 2016.

Accounting Period – The Company's fiscal year ends on the last Saturday in July. As a result, each fiscal year consists of either 52 weeks or 53 weeks of operations (with the additional week of operations occurring in the fourth quarter). Fiscal 2016 consisted of 53 weeks of operations and fiscal 2017 will consist of 52 weeks of operations.

Significant Accounting Policies & Estimates

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. These estimates are based on the Company's historical experience and management's understanding of current facts and circumstances. At the time they are made, the Company believes that such estimates are fair when considered in conjunction with the consolidated financial position and results of operations taken as a whole. However, actual results could differ materially from those estimates. There have been no material changes to the Company's significant accounting policies and critical accounting estimates described in the

Company’s Annual Report on Form 10-K for the year ended July 30, 2016.

Revenue Recognition. The Company performs a majority of its services under master service agreements and other agreements that contain customer-specified service requirements, such as discrete pricing for individual tasks. Revenue is recognized under these arrangements based on units-of-delivery as each unit is completed. The remainder of the Company’s services, representing less than 5% of its contract revenues during the three months ended October 29, 2016 and less than 10% of its contract revenues during the three months ended October 24, 2015, are performed under contracts using the cost-to-cost measure of the percentage of completion method of accounting. Revenue is recognized under these arrangements based on the ratio of contract costs incurred to date to total estimated contract costs. For contracts using the cost-to-cost measure of the percentage of completion method of accounting, the Company accrues the entire amount of a contract loss at the time the loss is determined to be probable and can be reasonably estimated. During the three months ended October 29, 2016 and October 24, 2015, there was no material impact to the Company’s results of operations due to changes in contract estimates.

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There were no material amounts of unapproved change orders or claims recognized during the three months ended October 29, 2016 or October 24, 2015. The current asset “Costs and estimated earnings in excess of billings” represents revenues recognized in excess of amounts billed. The current liability “Billings in excess of costs and estimated earnings” represents billings in excess of revenues recognized.

Restricted Cash – As of October 29, 2016 and July 30, 2016, the Company had approximately $5.5 million and $5.0 million, respectively, in restricted cash, which is held as collateral in support of the Company’s insurance obligations. Restricted cash is included in other assets in the condensed consolidated balance sheets and changes in restricted cash are reported in cash flows used in investing activities in the condensed consolidated statements of cash flows.

Other Assets – As of October 29, 2016 and July 30, 2016, other non-current assets consist of deferred financing costs related to the Company’s revolving credit facility of $5.9 million and $6.4 million, respectively, insurance recoveries/receivables related to accrued claims of $5.6 million and $5.7 million, respectively, as well as long-term deposits, prepaid discounts, and other non-current assets totaling $18.0 million and $17.7 million, respectively. As of October 29, 2016 and July 30, 2016, other non-current assets also included $4.0 million for an investment in nonvoting senior units of a former customer, which is accounted for using the cost method.

Fair Value of Financial Instruments – The Company’s financial instruments primarily consist of cash and equivalents, restricted cash, accounts receivable, income taxes receivable and payable, accounts payable, certain accrued expenses, and long-term debt. The carrying amounts of these items approximate fair value due to their short maturity, except for certain of the Company’s outstanding long-term debt which is based on observable market-based inputs (Level 2). See Note 10, Debt, for further information regarding the fair value of such financial instruments. The Company’s cash and equivalents are based on quoted market prices in active markets for identical assets (Level 1) as of October 29, 2016 and July 30, 2016. During the three months ended October 29, 2016 and October 24, 2015, the Company had no material nonrecurring fair value measurements of assets or liabilities subsequent to their initial recognition.

Recently Issued Accounting Pronouncements

There have been no changes in the expected dates of adoption or estimated effects on the Company’s consolidated financial statements of recently issued accounting pronouncements from those disclosed in the Company’s Annual Report on Form 10-K for the year ended July 30, 2016 filed with the SEC on August 31, 2016. Accounting standards adopted during the period covered in this Quarterly Report on Form 10-Q and recently issued accounting pronouncements are discussed below.
Recently Adopted Accounting Standards

Business Combinations - In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (“ASU 2015-16”). ASU 2015-16 replaces the requirement for an acquirer in a business combination to retrospectively adjust provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill when measurement period adjustments are identified. The new guidance requires an acquirer to recognize adjustments in the reporting period in which the adjustment amounts are determined. The acquirer must record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Additionally, the acquirer must present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustments had been recognized as of the acquisition date. The Company adopted ASU 2015-16 during the first quarter of fiscal 2017 and it did not have a material effect on the Company’s consolidated financial statements.

Accounting Standards Not Yet Adopted

Income Taxes - In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). ASU 2016-16 amends the current GAAP prohibition of recognizing current and deferred income taxes for intra-entity asset transfers until the asset has been sold to an outside party. The update requires an entity to recognize the income tax consequences of an intra-entity transfer for assets other than inventory when the transfer occurs. ASU 2016-16 will be effective for the Company in fiscal 2019 and interim reporting periods within that year. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company expects the adoption of this guidance will not have a material effect on the Company's consolidated financial statements.

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Statement of Cash Flows - In August 2016, the FASB issued Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 is intended to reduce the diversity in practice regarding the classification of certain transactions within the statement of cash flows. ASU 2016-15 will be effective for the Company in fiscal 2019 and interim reporting periods within that year. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effect of the adoption of this guidance on the Company’s consolidated financial statements.

2. Computation of Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share (dollars in thousands, except per share amounts):

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
Net income available to common stockholders (numerator)	$51,050	$ 30,824
Weighted-average number of common shares (denominator)	31,429,493	32,871,240
Basic earnings per common share	$1.62	$ 0.94
Weighted-average number of common shares	31,429,493	32,871,240
Potential shares of common stock arising from stock options, and unvested restricted share units	770,794	1,015,507
Total shares-diluted (denominator)	32,200,287	33,886,747
Diluted earnings per common share	$1.59	$ 0.91

The weighted-average number of common shares outstanding used in the computation of diluted earnings per common share does not include the effect of the following instruments because their inclusion would have been anti-dilutive:

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
Stock-based awards	41,302	40,536
0.75% convertible senior notes due 2021	5,005,734	5,005,734
Warrants	5,005,734	5,005,734
Total anti-dilutive weighted shares excluded from the calculation of earnings per common share	10,052,770	10,052,004

Under the treasury stock method, the convertible senior notes will have a dilutive impact on earnings per common share if the Company’s average stock price for the period exceeds the conversion price for the convertible senior notes of $96.89 per share. The warrants will have a dilutive impact on earnings per common share if the Company’s average stock price for the period exceeds the warrant strike price of $130.43 per share. As the Company’s average stock price for the three months ended October 29, 2016 was below the conversion price for the convertible senior notes and the strike price for the warrants, the underlying common shares were anti-dilutive as reflected above. See Note 10, Debt, for additional information related to the Company’s convertible senior notes and warrant transactions.

In connection with the offering of the convertible senior notes, the Company entered into convertible note hedge transactions with counterparties for the purpose of reducing the potential dilution to common stockholders from the conversion of the notes and offsetting any potential cash payments in excess of the principal amount of the notes. Prior to conversion, the convertible note hedge is not included for purposes of the calculation of earnings per common share as its effect would be anti-dilutive. Upon conversion, the convertible note hedge is expected to offset the dilutive effect of the convertible senior notes when the stock price is above $96.89 per share. See Note 10, Debt, for additional information related to the Company’s convertible note hedge.

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3. Acquisitions

Fiscal 2016 - During August 2015, the Company acquired TelCom Construction, Inc. and an affiliate (together, “TelCom”). The purchase price was $48.8 million paid in cash. TelCom, based in Clearwater, Minnesota, provides construction and maintenance services for telecommunications providers throughout the United States. This acquisition expanded the Company’s geographic presence within its existing customer base. During July 2016, the Company acquired certain assets and assumed certain liabilities associated with the wireless network deployment and wireline operations of Goodman Networks Incorporated (“Goodman”) for a cash purchase price of $107.5 million, subject to a total working capital adjustment initially estimated at approximately $4.7 million. The acquired operations provide wireless construction services in a number of markets, including Texas, Georgia, and Southern California. The acquisition reinforces the Company’s wireless construction resources and expands the Company’s geographic presence within its existing customer base. During the fourth quarter of fiscal 2016, the Company acquired NextGen Telecom Services Group, Inc. (“NextGen”) for $5.6 million, net of cash acquired. NextGen provides construction and maintenance services for telecommunications providers in the Northeastern United States.

Fiscal 2016 Purchase Price Allocations

The purchase price allocation of TelCom was completed during the fourth quarter of fiscal 2016. Purchase price allocations of the Goodman and NextGen acquisitions are preliminary and will be completed during fiscal 2017 when valuations for intangible assets and other amounts are finalized. In accordance with ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, the Company will recognize any adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are determined. Additionally, the Company will record, in the same period’s financial statements in which adjustments are recorded, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of any change to the provisional amounts, calculated as if the accounting adjustment had been completed at the acquisition date.

During the three months ended October 29, 2016, the Company recorded adjustments to the fair values assigned to working capital items and reduced the value assigned to goodwill by approximately $1.5 million in connection with the purchase price allocation of the Goodman acquisition. The income statement impact during the three months ended October 29, 2016 related to these fair value adjustments was not significant and has been recorded in the current period in accordance with ASU 2015-16.

The following table summarizes the aggregate consideration paid for businesses acquired in fiscal 2016 and presents the allocation of these amounts to the net tangible and identifiable intangible assets based on their estimated fair values as of the respective dates of acquisition (dollars in millions):

	2016
Assets	
Accounts receivable	$16.3
Costs and estimated earnings in excess of billings	34.8
Inventories and other current assets	11.8
Property and equipment	11.5
Goodwill	36.9
Intangible assets - customer relationships	94.5
Intangible assets - trade names and other	1.8
Total assets	207.6
Liabilities	
Accounts payable	23.5

Accrued and other liabilities	26.9
Total liabilities	50.4
Net Assets Acquired	$157.2

With respect to the acquisition from Goodman, $22.5 million of the purchase price was placed into an escrow account, $2.5 million of which is available for working capital adjustments and $20.0 million of which is available to the Company for indemnification obligations of the seller. Of the $20.0 million available for indemnification obligations, $10.0 million will be released to the seller upon the occurrence of certain conditions or the twelve-month anniversary of the closing date. The remaining $10.0 million will be released to the seller when the seller satisfies certain conditions with respect to a dispute with

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the state of Texas over a sales tax liability of approximately $31.7 million (the “Sales Tax Liability”). Under the asset purchase agreement, Goodman has retained responsibility for this Sales Tax Liability. Should Goodman not resolve this matter, the state may assert that the Company is a successor to the operations and seek to recover from the Company. In such event the Company would seek indemnification for recovery from Goodman, including from the funds contained in the escrow account, for any amount the Company pays.

Results of businesses acquired during fiscal 2016 are included in the condensed consolidated financial statements from their respective dates of acquisition. For businesses acquired in fiscal 2016, these aggregate amounts included contract revenues of $56.6 million and $29.9 million and intangible amortization expense of $2.1 million and $0.3 million during the three months ended October 29, 2016 and October 24, 2015, respectively. Net income, inclusive of charges allocated for management costs of the businesses acquired, was not material during the three months ended October 29, 2016 or October 24, 2015. See Note 7, Goodwill and Intangible Assets, for information regarding the goodwill and intangible assets of businesses acquired.

4. Accounts Receivable

Accounts receivable consisted of the following (dollars in thousands):

	October 29, 2016	July 30, 2016
Contract billings	$ 300,086	$ 297,532
Retainage	31,289	32,101
Total	331,375	329,633
Less: allowance for doubtful accounts	(1,589)	(1,603)
Accounts receivable, net	$ 329,786	$ 328,030

The Company grants credit under normal payment terms, generally without collateral, to its customers. The Company expects to collect the outstanding balance of accounts receivable, net (including retainage) within the next twelve months. The Company maintains an allowance for doubtful accounts for estimated losses on uncollected balances. During the three months ended October 29, 2016 and October 24, 2015, write-offs to the allowance for doubtful accounts, net of recoveries, were not material. There were no material accounts receivable amounts representing claims or other similar items subject to uncertainty as of October 29, 2016 or July 30, 2016.

The Company participates in a customer-sponsored vendor payment program. Under this program, accounts receivable are collected on an expedited basis pursuant to a non-recourse sale of the receivables to a bank partner of the customer. The program reduces the time required to collect that customer’s receivables. The Company incurs a discount fee associated with the collection of the accounts receivable that is reflected as an expense component in other income, net in the condensed consolidated statements of operations. For the three months ended October 29, 2016, the receivables sold under the program totaled $167.6 million. Cash collected from this arrangement is reflected within cash provided by operating activities in the condensed consolidated statement of cash flows for the three months ended October 29, 2016. The amount of receivables sold that have not been collected from the bank partner as of October 29, 2016 was not material.

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5. Costs and Estimated Earnings in Excess of Billings

Costs and estimated earnings in excess of billings ("CIEB") includes revenue for services performed under contracts using the units-of-delivery method of accounting and the cost-to-cost measure of the percentage of completion method of accounting. Amounts consisted of the following (dollars in thousands):

	October 29, 2016	July 30, 2016
Costs incurred on contracts in progress	$ 397,412	$ 307,826
Estimated to date earnings	119,012	92,226
Total costs and estimated earnings	516,424	400,052
Less: billings to date	(42,735)	(42,637)
	$ 473,689	$ 357,415
Included in the accompanying condensed consolidated balance sheets under the captions:		
Costs and estimated earnings in excess of billings	$ 488,960	$ 376,972
Billings in excess of costs and estimated earnings	(15,271)	(19,557)
	$ 473,689	$ 357,415

As of October 29, 2016, the Company expects that substantially all of its CIEB will be billed to customers and collected in the normal course of business within the next twelve months. Additionally, there were no material CIEB amounts representing claims or other similar items subject to uncertainty as of October 29, 2016 or July 30, 2016.

6. Property and Equipment

Property and equipment consisted of the following (dollars in thousands):

	Estimated Useful Lives (Years)	October 29, 2016	July 30, 2016
Land	—	$ 3,475	$ 3,475
Buildings	10-35	12,011	11,969
Leasehold improvements	1-10	14,757	13,753
Vehicles	1-5	423,195	404,273
Computer hardware and software	1-7	98,972	95,570
Office furniture and equipment	1-10	10,852	10,374
Equipment and machinery	1-10	250,036	242,079
Total		813,298	781,493
Less: accumulated depreciation		(475,645)	(454,823)
Property and equipment, net		$ 337,653	$ 326,670

Depreciation expense was $28.4 million and $22.7 million for the three months ended October 29, 2016 and October 24, 2015, respectively.

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7. Goodwill and Intangible Assets

Goodwill

The Company’s goodwill balance was $308.7 million and $310.2 million as of October 29, 2016 and July 30, 2016, respectively. Changes in the carrying amount of goodwill for fiscal 2017 were as follows (dollars in thousands):

	Goodwill	Accumulated Impairment Losses	Total
Balance as of July 30, 2016	$505,924	$(195,767)	$310,157
Purchase price allocation adjustments	(1,488)	—	(1,488)
Balance as of October 29, 2016	$504,436	$(195,767)	$308,669

The Company’s goodwill resides in multiple reporting units. Goodwill and other indefinite-lived intangible assets are assessed annually for impairment as of the first day of the fourth fiscal quarter of each year, or more frequently if events occur that would indicate a potential reduction in the fair value of a reporting unit below its carrying value. The profitability of individual reporting units may suffer periodically due to downturns in customer demand and the level of overall economic activity including, in particular, construction and housing activity. The Company’s customers may reduce capital expenditures and defer or cancel pending projects during times of slowing economic conditions. Additionally, adverse conditions in the economy and future volatility in the equity and credit markets could impact the valuation of the Company’s reporting units. The cyclical nature of the Company’s business, the high level of competition existing within its industry, and the concentration of its revenues from a limited number of customers may also cause results to vary. These factors may affect individual reporting units disproportionately, relative to the Company as a whole. As a result, the performance of one or more of the reporting units could decline, resulting in an impairment of goodwill or intangible assets.

As a result of the fiscal 2016 annual impairment analysis, the Company concluded that no impairment of goodwill or the indefinite-lived intangible asset was indicated at any reporting unit. As of October 29, 2016, the Company believes the goodwill is recoverable for all of the reporting units; however, there can be no assurances that goodwill may not be impaired in future periods.

Intangible Assets

The Company’s intangible assets consisted of the following (dollars in thousands):

	Weighted Average Remaining Useful Lives (In years)	October 29, 2016	July 30, 2016
Gross carrying amount:			
Customer relationships	12.5	$ 289,917	$289,955
Contract backlog	0.1	4,780	4,780
Trade names	7.3	9,650	9,800
UtiliQuest trade name	—	4,700	4,700
Non-compete agreements	2.4	685	685
		309,732	309,920
Accumulated amortization:			
Customer relationships		106,716	101,012
Contract backlog		4,751	4,666
Trade names		6,220	6,034
Non-compete agreements		381	329

	118,068	112,041
Intangible assets, net	$ 191,664	$ 197,879

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Amortization of the Company’s customer relationship intangibles and contract backlog intangibles is recognized on an accelerated basis as a function of the expected economic benefit. Amortization for the Company’s other finite-lived intangibles is recognized on a straight-line basis over the estimated useful life. Amortization expense for finite-lived intangible assets was $6.2 million and $4.8 million for the three months ended October 29, 2016 and October 24, 2015, respectively.

As of October 29, 2016, the Company believes that the carrying amounts of its intangible assets are recoverable. However, if adverse events were to occur or circumstances were to change indicating that the carrying amount of such assets may not be fully recoverable, the assets would be reviewed for impairment and the assets could be impaired.

8. Accrued Insurance Claims

For claims within its insurance program, the Company retains the risk of loss, up to certain limits, for matters related to automobile liability, general liability (including damages associated with underground facility locating services), workers’ compensation, and employee group health. With regard to losses occurring in fiscal 2017, the Company retains the risk of loss up to $1.0 million on a per occurrence basis for automobile liability, general liability, and workers’ compensation. These retention amounts are applicable to all of the states in which the Company operates, except with respect to workers’ compensation insurance in two states in which the Company participates in state-sponsored insurance funds. Aggregate stop-loss coverage for automobile liability, general liability, and workers’ compensation claims is $103.7 million for fiscal 2017.

The Company is party to a stop-loss agreement for losses under its employee group health plan. For calendar year 2016, the Company retains the risk of loss up to the first $400,000 of claims per participant as well as an annual aggregate amount.

The liability for total accrued insurance claims and related processing costs was $93.3 million and $89.7 million as of October 29, 2016 and July 30, 2016, respectively, of which $54.6 million and $52.8 million, respectively, was long-term and reflected in non-current liabilities in the condensed consolidated financial statements. Insurance recoveries/receivables related to accrued claims as of October 29, 2016 and July 30, 2016 were $5.6 million and $5.7 million, respectively, which were included in non-current other assets in the accompanying condensed consolidated balance sheets.

9. Other Accrued Liabilities

Other accrued liabilities consisted of the following (dollars in thousands):

	October 29, 2016	July 30, 2016
Accrued payroll and related taxes	$ 25,414	$ 23,908
Accrued employee benefit and incentive plan costs	16,203	40,943
Accrued construction costs	41,521	41,123
Other current liabilities	14,672	16,328
Total other accrued liabilities	$ 97,810	$ 122,302

10. Debt

The Company’s outstanding indebtedness consisted of the following (dollars in thousands):

	October 29, 2016	July 30, 2016
Credit Agreement - Revolving facility (matures April 2020)	$ 68,000	$—

Credit Agreement - Term loan facilities (mature April 2020)	346,250	346,250
0.75% convertible senior notes, net (matures September 2021)	377,751	373,077
	792,001	719,327
Less: current portion	(17,500)	(13,125)
Long-term debt	$ 774,501	$ 706,202

Senior Credit Agreement

The Company and certain of its subsidiaries are party to a credit agreement with the various lenders named therein, dated as of December 3, 2012 (as amended as of June 17, 2016, May 20, 2016, April 24, 2015 and September 9, 2015), that matures on April 24, 2020 (as amended, the “Credit Agreement”). The Credit Agreement provides for a $450.0 million revolving

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facility, $350.0 million in aggregate term loan facilities, and contains a sublimit of $200.0 million for the issuance of letters of credit. Subject to certain conditions, the Credit Agreement provides the Company the ability to enter into one or more incremental facilities, either by increasing the revolving commitments under the Credit Agreement and/or in the form of term loans, up to the greater of (i) $150.0 million and (ii) an amount such that, after giving effect to such incremental facility on a pro forma basis (assuming that the amount of the incremental commitments are fully drawn and funded), the consolidated senior secured leverage ratio does not exceed 2.25 to 1.00. The consolidated senior secured leverage ratio is the ratio of the Company's consolidated senior secured indebtedness to its trailing twelve month consolidated earnings before interest, taxes, depreciation, and amortization ("EBITDA"), as defined by the Credit Agreement. The incremental facilities can be in the form of revolving commitments under the Credit Agreement and/or in the form of term loans. Payments under the Credit Agreement are guaranteed by substantially all of the Company's subsidiaries and secured by the equity interests of the substantial majority of the Company's subsidiaries.

Borrowings under the Credit Agreement bear interest at rates described below based upon the Company's consolidated leverage ratio, which is the ratio of the Company's consolidated total funded debt to its trailing twelve month consolidated EBITDA, as defined by the Credit Agreement. In addition, the Company incurs certain fees for unused balances and letters of credit at the rates described below, also based upon the Company's consolidated leverage ratio:

Borrowings - Eurodollar Rate Loans	1.25% - 2.00% plus LIBOR
Borrowings - Base Rate Loans	0.25% - 1.00% plus administrative agent's base rate[1]
Unused Revolver Commitment	0.25% - 0.40%
Standby Letters of Credit	1.25% - 2.00%
Commercial Letters of Credit	0.625% - 1.00%

[1] The agent's base rate is described in the Credit Agreement as the highest of (i) the administrative agent's prime rate, (ii) the Federal Funds Rate plus 0.50%, and (iii) the Eurodollar rate plus 1.00%, plus an applicable margin.

Standby letters of credit of approximately $57.6 million, issued as part of the Company's insurance program, were outstanding under the Credit Agreement as of both October 29, 2016 and July 30, 2016. The weighted average interest rates and fees for balances under the Credit Agreement as of October 29, 2016 and July 30, 2016 were as follows:

	Weighted Average Rate End of Period	
	October 29, 2016	July 30, 2016
Borrowings - Term loan facilities	2.52%	2.49%
Borrowings - Revolving facility[1]	3.05%	—%
Standby Letters of Credit	2.00%	2.00%
Unused Revolver	0.40%	0.40%

[1] There were no outstanding borrowings under the revolving facility as of July 30, 2016.

The Credit Agreement contains a financial covenant that requires the Company to maintain a consolidated leverage ratio of not greater than 3.50 to 1.00, as measured at the end of each fiscal quarter. It provides for certain increases to this ratio in connection with permitted acquisitions on the terms and conditions specified in the Credit Agreement. In addition, the Credit Agreement contains a financial covenant that requires the Company to maintain a consolidated interest coverage ratio, which is the ratio of the Company's trailing twelve-month consolidated EBITDA to its consolidated interest expense, as defined by the Credit Agreement, of not less than 3.00 to 1.00, as measured at the end of each fiscal quarter. At October 29, 2016 and July 30, 2016, the Company was in compliance with the financial covenants of the Credit Agreement and had additional borrowing availability in the revolving facility of $324.4 million and $392.4 million, respectively, as determined by the most restrictive covenants.

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0.75% Convertible Senior Notes Due 2021

On September 15, 2015, the Company issued $485.0 million principal amount of 0.75% convertible senior notes due September 2021 (the “Notes”) in a private placement. The Company received net proceeds of approximately $471.7 million after deducting the initial purchasers’ discount of approximately $13.3 million. The Company used approximately $60.0 million of the net proceeds to repurchase 805,000 shares of its common stock from the initial purchasers of the Notes in privately negotiated transactions. In addition, the Company used approximately $296.6 million of the net proceeds to fund the redemption of all of its 7.125% senior subordinated notes and approximately $41.1 million for the net cost of convertible note hedge transactions and warrant transactions as further described below. The remainder of the proceeds of approximately $73.9 million is intended for general corporate purposes.

The Notes, governed by the terms of an indenture between the Company and a bank trustee are unsecured obligations and do not contain any financial covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Company. The Notes bear interest at a rate of 0.75% per year, payable in cash semiannually in March and September, and will mature on September 15, 2021, unless earlier purchased by the Company or converted. In the event the Company fails to perform certain obligations under the indenture, the Notes will accrue additional interest. Certain events are considered “events of default” under the Notes, which may result in the acceleration of the maturity of the Notes, as described in the indenture.
Each $1,000 of principal of the Notes is convertible into 10.3211 shares of the Company’s common stock, which is equivalent to an initial conversion price of approximately $96.89 per share. The conversion rate is subject to adjustment in certain circumstances, including in connection with specified fundamental changes (as defined in the indenture). In addition, holders of the Notes have the right to require the Company to repurchase all or a portion of their notes on the occurrence of a fundamental change at a price of 100% of their principal amount plus accrued and unpaid interest.

Prior to June 15, 2021, the Notes are convertible by the Note holder under the following circumstances: (1) during any fiscal quarter commencing after October 24, 2015 (and only during such fiscal quarter) if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days period ending on the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the applicable conversion price on such trading day; (2) during the five consecutive business day period after any five consecutive trading day period (the “measurement period”) in which the trading price per $1,000 principal amount of Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the applicable conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after June 15, 2021 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or a portion of their Notes at any time regardless of the foregoing circumstances. Upon conversion, the Notes will be settled, at the Company’s election, in cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock. The Company intends to settle the principal amount of the Notes with cash.

In accordance with ASC Topic 470, Debt (“ASC Topic 470”), certain convertible debt instruments that may be settled in cash upon conversion are required to be separately accounted for as liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar instrument that does not have an associated convertible feature using an indicative market interest rate (“Comparable Yield”) as of the date of issuance. The difference between the principal amount of the notes and the carrying amount represents a debt discount. The debt discount is amortized to interest expense using the Comparable Yield (5.5% with respect to the Notes) using the effective interest rate method over the term of the notes. The Company incurred $4.3 million and $1.8 million of interest expense during the three months ended October 29, 2016 and October 24, 2015, respectively, for the non-cash amortization of the debt discount. The equity component represents the difference between the principal amount of the Notes and the debt discount, both measured at issuance. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

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The Notes consist of the following components (dollars in thousands):

	October 29, 2016	July 30, 2016
Liability component		
Principal amount of 0.75% convertible senior notes due September 2021	$485,000	$485,000
Less: Debt discount	(97,372)	(101,679)
Less: Debt issuance costs[1]	(9,877)	(10,244)
Net carrying amount of Notes	$377,751	$373,077
Equity Component[2]	$112,554	$112,554

[1] Original issuance costs of approximately $15.1 million related to the Notes included the initial purchasers' discount of approximately $13.3 million and approximately $1.8 million paid to third parties. Approximately $11.5 million of issuance costs of the Notes was allocated to the liability component and recorded as a contra-liability, presented net against the carrying amount for the Notes on the Company's condensed consolidated balance sheet, of which $9.9 million and $10.2 million remained unamortized as of October 29, 2016 and July 30, 2016, respectively. Debt issuance costs attributable to the liability component are amortized to interest expense on the effective interest rate method over the term of the Notes. During the three months ended October 29, 2016 and October 24, 2015, the Company recorded $0.4 million and $0.1 million, respectively, related to the amortization of debt issuance costs of the Notes.

[2] Approximately $3.6 million of issuance costs paid to the initial purchasers of the Notes and third parties was allocated to the equity component and recorded net against the equity component in stockholders' equity on the condensed consolidated balance sheets.

The Company determined that the fair value of the Notes as of October 29, 2016 and July 30, 2016 was approximately $413.3 million and $458.7 million, respectively, based on quoted market prices (level 2), compared to a net carrying amount of $377.8 million and $373.1 million, respectively. The fair value and net carrying amounts as of October 29, 2016 and July 30, 2016 are both reflected net of the debt discount of $97.4 million and $101.7 million, respectively, and debt issuance costs of $9.9 million and $10.2 million, respectively.

Convertible Note Hedge and Warrant Transactions

In connection with the offering of the Notes, the Company entered into convertible note hedge transactions with counterparties for the purpose of reducing the potential dilution to common stockholders from the conversion of the Notes and offsetting any potential cash payments in excess of the principal amount of the Notes. In the event that shares or cash are deliverable to holders of the Notes upon conversion at limits defined in the indenture, counterparties to the convertible note hedge will be required to deliver up to 5.006 million shares of the Company's common stock or pay cash to the Company in a similar amount as the value that the Company delivers to the holders of the Notes based on a conversion price of $96.89 per share. The total cost of the convertible note hedge transactions was $115.8 million.

In addition, the Company entered into separately negotiated warrant transactions with the same counterparties as the convertible note hedge transactions whereby the Company sold warrants to purchase, subject to certain anti-dilution adjustments, up to 5.006 million shares of the Company's common stock at a price of $130.43 per share. The warrants will not have a dilutive effect on the Company's earnings per share unless the Company's quarterly average share price exceeds the warrant strike price of $130.43 per share. In this event, the Company expects to settle the warrant transactions on a net share basis whereby it will issue shares of its common stock. The Company received proceeds of approximately $74.7 million from the sale of these warrants.

Upon settlement of the conversion premium of the Notes, convertible note hedge, and warrants, the resulting dilutive impact of these transactions, if any, would be the number of shares necessary to settle the value of the warrant transactions above $130.43 per share. The net amounts incurred in connection with the convertible note hedge and warrant transactions were recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets during the first quarter of fiscal 2016 and are not expected to be remeasured in subsequent reporting periods.

The Company recorded an initial deferred tax liability of $43.4 million in connection with the debt discount associated with the Notes and recorded an initial deferred tax asset of $43.2 million in connection with the convertible note hedge transactions. Both the deferred tax liability and deferred tax asset are included in non-current deferred tax liabilities in the condensed consolidated balance sheets.

7.125% Senior Subordinated Notes - Loss on Debt Extinguishment

As of July 25, 2015, Dycom Investments, Inc. (the “Issuer”), a wholly-owned subsidiary of the Company, had outstanding an aggregate principal amount of $277.5 million of 7.125% senior subordinated notes due 2021 (the “7.125% Notes”). The outstanding 7.125% Notes were redeemed on October 15, 2015 (the “Redemption Date”) with a portion of the proceeds from the Notes offering described above. The aggregate amount paid in connection with the redemption was $296.6 million and was comprised of the $277.5 million principal amount of the outstanding 7.125% Notes, $4.9 million for accrued and unpaid interest to the Redemption Date, and approximately $14.2 million for the applicable call premium as defined in the indenture governing the 7.125% Notes. The call premium amount consisted of (a) the present value as defined under the indenture of the sum of (i) approximately $4.9 million representing interest for the period from the Redemption Date through January 15, 2016, and (ii) the redemption price of 103.563% (expressed as a percentage of the principal amount) of the 7.125% Notes at January 15, 2016, minus (b) the principal amount of the 7.125% Notes.

In connection with the redemption of the 7.125% Notes, the Company incurred a pre-tax charge for early extinguishment of debt of approximately $16.3 million during the first quarter of fiscal 2016. This charge is comprised of: (i) $4.9 million for the present value of the interest payments for the period from the Redemption Date through January 15, 2016, (ii) $6.5 million for the excess of the present value of the redemption price over the carrying value of the 7.125% Notes, and (iii) $4.9 million for the write-off of deferred financing charges related to the fees incurred in connection with the issuance of the 7.125% Notes.

11. Income Taxes

The Company accounts for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The Company’s effective income tax rate differs from the statutory rate for the tax jurisdictions where it operates primarily as the result of the impact of non-deductible and non-taxable items and tax credits recognized in relation to pre-tax results. Measurement of the Company’s tax position is based on the applicable statutes, federal and state case law, and its interpretations of tax regulations.

The Company is subject to federal income taxes in the United States and the income taxes of multiple state jurisdictions and in Canada. Amounts of pre-tax earnings related to Canadian operations for the three months ended October 29, 2016 and October 24, 2015 were not material. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or Canadian income tax examinations for fiscal years ended 2012 and prior. During fiscal 2016, the Company was notified by the Internal Revenue Service that its federal income tax return for fiscal 2014 was selected for examination. The Company believes its provision for income taxes is adequate; however, any assessment would affect the Company’s results of operations and cash flows. Income taxes payable totaled $27.9 million and $15.3 million as of October 29, 2016 and July 30, 2016, respectively. Income taxes receivable totaled $1.0 million and $1.4 million as of October 29, 2016 and July 30, 2016, respectively, and are included in current assets in the condensed consolidated balance sheets.

As of both October 29, 2016 and July 30, 2016, the Company had total unrecognized tax benefits of $2.4 million resulting from uncertain tax positions. The Company’s effective tax rate will be reduced during future periods if it is determined these tax benefits are realizable. The Company had approximately $1.0 million accrued for the payment of interest and penalties as of both October 29, 2016 and July 30, 2016. Interest expense related to unrecognized tax benefits for the Company for the three months ended October 29, 2016 and October 24, 2015 was not material.

12. Other Income, Net

The components of other income, net, were as follows (dollars in thousands):

	For the Three Months Ended	
	October 29, 2016	October 24, 2015
Gain on sale of fixed assets	$ 1,443	$ 1,136
Miscellaneous (expense) income, net		