DYCOM INDUSTRIES INC
Form 10-Q
November 25, 2015
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 24, 2015
¨	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 32,480,713 shares of common stock with a par value of $0.33 1/3 outstanding at November 20, 2015.

Dycom Industries, Inc.
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PART I - FINANCIAL INFORMATION

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

	October 24, 2015	July 25, 2015
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$21,797	$21,289
Accounts receivable, net	361,635	315,134
Costs and estimated earnings in excess of billings	333,659	274,730
Inventories	57,686	48,650
Deferred tax assets, net	21,974	20,630
Other current assets	20,866	16,199
Total current assets	817,617	696,632
Property and equipment, net	265,485	231,564
Goodwill	281,448	271,653
Intangible assets, net	134,166	120,926
Other	32,766	38,089
Total non-current assets	713,865	662,232
Total assets	$1,531,482	$1,358,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$93,398	$71,834
Current portion of debt	5,625	3,750
Billings in excess of costs and estimated earnings	12,416	16,896
Accrued insurance claims	38,078	35,824
Other accrued liabilities	102,779	98,406
Total current liabilities	252,296	226,710
Long-term debt (including debt premium of $2.8 million at July 25, 2015)	636,009	521,841
Accrued insurance claims	49,910	51,476
Deferred tax liabilities, net non-current	45,001	47,388
Other liabilities	4,352	4,249
Total liabilities	987,568	851,664
COMMITMENTS AND CONTINGENCIES, Note 17		
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: 32,465,015 and 33,381,779 issued and outstanding, respectively	10,822	11,127
Additional paid-in capital	77,239	71,004
Accumulated other comprehensive loss	(1,238)	(1,198)

Retained earnings	457,091	426,267
Total stockholders' equity	543,914	507,200
Total liabilities and stockholders' equity	$1,531,482	$1,358,864

See notes to the condensed consolidated financial statements.

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

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands, except per share amounts)	
REVENUES:		
Contract revenues	$659,268	$510,389
EXPENSES:		
Costs of earned revenues, excluding depreciation and amortization	506,978	403,468
General and administrative (including stock-based compensation expense of $4.5 million and $3.9 million, respectively)	51,464	44,696
Depreciation and amortization	27,449	22,930
Total	585,891	471,094
Interest expense, net	(9,131)	(6,749)
Loss on debt extinguishment	(16,260)	—
Other income, net	1,469	1,795
Income before income taxes	49,455	34,341
Provision (benefit) for income taxes:		
Current	22,602	16,999
Deferred	(3,971)	(3,465)
Total provision for income taxes	18,631	13,534
Net income	$30,824	$20,807
Earnings per common share:		
Basic earnings per common share	$0.94	$0.61
Diluted earnings per common share	$0.91	$0.59
Shares used in computing earnings per common share:		
Basic	32,871,240	34,010,147
Diluted	33,886,747	35,117,673

See notes to the condensed consolidated financial statements.

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

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands)	
Net income	$30,824	$20,807
Foreign currency translation losses, net of tax	(40)	(268)
Comprehensive income	$30,784	$20,539

See notes to the condensed consolidated financial statements.

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DYCOM INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
	Shares	Amount				
	(Dollars in thousands)					
Balances as of July 25, 2015	33,381,779	$11,127	$71,004	$(1,198)	$426,267	$507,200
Stock options exercised	12,788	5	134	—	—	139
Stock-based compensation	783	—	4,509	—	—	4,509
Issuance of restricted stock, net of tax withholdings	23,889	8	(1,176)	—	—	(1,168)
Repurchase of common stock	(954,224)	(318)	(69,679)	—	—	(69,997)
Other comprehensive loss	—	—	—	(40)	—	(40)
Tax benefits from stock-based compensation	—	—	1,021	—	—	1,021
Equity component of 0.75% senior convertible notes due 2021, net	—	—	112,554	—	—	112,554
Sale of warrants	—	—	74,690	—	—	74,690
Purchase of convertible note hedge	—	—	(115,818)	—	—	(115,818)
Net income	—	—	—	—	30,824	30,824
Balances as of October 24, 2015	32,465,015	$10,822	$77,239	$(1,238)	$457,091	$543,914

See notes to the condensed consolidated financial statements.

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

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands)	
OPERATING ACTIVITIES:		
Net income	$30,824	$20,807
Adjustments to reconcile net income to net cash (used in) provided by operating activities, net of acquisitions:		
Depreciation and amortization	27,449	22,930
Deferred income tax benefit	(3,971)	(3,465)
Stock-based compensation	4,509	3,890
Bad debt expense, net	490	83
Gain on sale of fixed assets	(1,136)	(1,523)
Write-off of deferred financing fees and premium on long-term debt	2,017	—
Amortization of debt discount	1,780	—
Amortization of premium on long-term debt	(94)	(97)
Amortization of debt issuance costs and other	690	494
Excess tax benefit from share-based awards	(1,024)	(210)
Change in operating assets and liabilities:		
Accounts receivable, net	(35,497)	(22,016)
Costs and estimated earnings in excess of billings, net	(51,342)	(26,237)
Other current assets and inventory	(9,296)	(1,608)
Other assets	(844)	(159)
Income taxes receivable/payable	12,598	10,233
Accounts payable	7,875	1,151
Accrued liabilities, insurance claims, and other liabilities	(13,890)	6,632
Net cash (used in) provided by operating activities	(28,862)	10,905
INVESTING ACTIVITIES:		
Cash paid for acquisitions, net of cash acquired	(48,596)	(8,371)
Capital expenditures	(40,758)	(18,028)
Proceeds from sale of assets	1,327	1,698
Changes in restricted cash	(479)	(541)
Net cash used in investing activities	(88,506)	(25,242)
FINANCING ACTIVITIES:		
Proceeds from borrowings on senior credit agreement, including term loan	317,000	132,000
Principal payments on senior credit agreement, including term loan	(281,000)	(122,344)
Proceeds from issuance of 0.75% senior convertible notes due 2021	485,000	—
Proceeds from sale of warrants	74,690	—
Purchase of convertible note hedge	(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	139	567
Restricted stock tax withholdings	(1,168)	(309)

Excess tax benefit from share-based awards	1,024	210
Net cash provided by financing activities	117,876	10,124
Net increase (decrease) in cash and equivalents	508	(4,213)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	21,289	20,672
CASH AND EQUIVALENTS AT END OF PERIOD	$21,797	$16,459

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

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands)	
SUPPLEMENTAL DISCLOSURE OF OTHER CASH FLOW ACTIVITIES AND NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid during the period for:		
Interest	$6,866	$1,369
Income taxes	$11,444	$6,796
Purchases of capital assets included in accounts payable or other accrued liabilities at period end	$7,805	$3,924
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 to telecommunications providers, underground facility locating services to various utilities, including telecommunications providers, and other construction and maintenance services to 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 and the financial statements reflect all adjustments, consisting of only normal recurring accruals that are, in the opinion of management, necessary for a fair presentation of such statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for the interim financial information 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 25, 2015 included in the Company's Annual Report on Form 10-K for the year ended July 25, 2015, filed with the SEC on September 4, 2015.

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 approximately $2.8 million and $4.7 million during the three months ended October 24, 2015 and October 25, 2014, respectively. The Company had no material long-lived assets in Canada as of October 24, 2015 or July 25, 2015.

Accounting Period – The Company's fiscal year ends on the last Saturday in July. As a result, each fiscal year consists of either fifty-two weeks or fifty-three weeks of operations (with an additional week of operations occurring in the fourth quarter). Fiscal 2015 contained fifty-two weeks and fiscal 2016 will contain fifty-three 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 25, 2015.

Restricted Cash – As of October 24, 2015 and July 25, 2015, the Company had approximately $5.0 million and $4.5 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.

Business Combinations – The Company accounts for business combinations under the acquisition method of accounting. The purchase price of each business acquired is allocated to the tangible and intangible assets acquired and the liabilities assumed based on information regarding their respective fair values on the date of acquisition. Any excess of the purchase price over the fair value of the separately identifiable assets acquired and the liabilities assumed is allocated to goodwill. Management determines the fair values used in purchase price allocations for intangible assets based on historical data, estimated discounted future cash flows, contract backlog amounts, if applicable, and expected royalty rates for trademarks and trade names, as well as certain other information. The valuation of assets acquired and liabilities assumed requires a number of judgments and is subject to revision as additional information about the fair value of assets and liabilities becomes available. Additional information, which existed as of the acquisition date but unknown to the Company at that time, may become known during the remainder of the measurement period, a period not to exceed twelve months from the acquisition date. Adjustments to the preliminary purchase price allocation, if necessary, are recorded to the value of the assets acquired and liabilities assumed, with a corresponding adjustment to goodwill. Acquisition costs are expensed as incurred. The results of operations of businesses acquired are included in the accompanying condensed consolidated financial statement from their dates of acquisition.

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 24, 2015 and July 25, 2015. During the three months ended October 24, 2015 and October 25, 2014, the Company had no material nonrecurring fair value measurements of assets or liabilities subsequent to their initial recognition.

Other Assets – As of October 24, 2015 and July 25, 2015, other non-current assets consist of deferred financing costs of $8.1 million and $11.6 million, respectively, insurance recoveries/receivables related to accrued claims of $5.9 million and $8.9 million, respectively, as well as long-term deposits, prepaid discounts, and other non-current assets totaling $14.8 million and $13.6 million, respectively. As of October 24, 2015 and July 25, 2015, other non-current assets also included $4.0 million for an investment in nonvoting senior units of a customer, which is accounted for using the cost method.

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. 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

In April 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). ASU 2014-08 changes the criteria for reporting discontinued operations. In accordance with ASU 2014-08, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. ASU 2014-08 also requires expanded disclosures about the assets, liabilities, income, and expenses of discontinued operations as well as disclosure of the pre-tax income rising from a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The Company adopted ASU 2014-08 in fiscal 2016 and it did not have a material effect on the Company's consolidated financial statements.

Accounting Standards Not Yet Adopted

In September 2015, the FASB issued Accounting Standards Update No. 2015-16, 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. ASU 2015-16 will be effective for the Company in fiscal 2017 and interim reporting periods within that year. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

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In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 eliminates the current requirement for an entity to separate deferred income tax liabilities and assets into current and non-current amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, the amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. ASU 2015-17 will be effective for the Company in fiscal 2018 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 table below sets forth the computation of basic and diluted earnings per common share. Basic earnings per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the weighted average number of common shares outstanding during the period and dilutive potential common shares arising from the Company's stock-based awards, senior convertible notes and warrants if their inclusion is dilutive under the treasury stock method. Common stock equivalents related to stock-based awards, senior convertible notes and warrants are excluded from diluted earnings per common share calculations if their effect would be anti-dilutive.

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands, except per share amounts)	
Net income available to common stockholders (numerator)	$30,824	$20,807
Weighted-average number of common shares (denominator)	32,871,240	34,010,147
Basic earnings per common share	$0.94	$0.61
Weighted-average number of common shares	32,871,240	34,010,147
Potential shares of common stock arising from stock options, and unvested restricted share units	1,015,507	1,107,526
Total shares-diluted (denominator)	33,886,747	35,117,673
Diluted earnings per common share	$0.91	$0.59

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 24, 2015	October 25, 2014
Stock-based awards	40,536	570,749
0.75% senior convertible notes due 2021*	5,005,734	—
Warrants*	5,005,734	—
Total anti-dilutive weighted shares excluded from the calculation of earnings per common share	10,052,004	570,749

*See Note 10, Debt, for additional information related to the Company's senior convertible notes and warrant transactions.

Under the treasury stock method, the senior convertible 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 senior convertible 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 quarter ended

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October 24, 2015 was below the conversion price for the senior convertible notes and the warrants, the underlying common shares were anti-dilutive as reflected above.

In connection with the offering of the senior convertible 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 senior convertible 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.

3. Acquisitions

Fiscal 2016 - On August 7, 2015, the Company acquired TelCom Construction, Inc. and an affiliate (together, "TelCom"), for approximately $48.6 million in cash and an adjustment for working capital received in excess of a target amount estimated to be approximately $0.2 million payable during the second quarter of fiscal 2016. TelCom, based in Clearwater, Minnesota, provides construction and maintenance services for telecommunications providers throughout the United States. This acquisition expands the Company's geographical presence within its existing customer base. The purchase price allocation of TelCom is preliminary and will be completed during fiscal 2016 when valuations are finalized for intangible assets and other amounts.

The preliminary purchase price allocation of TelCom is as follows (dollars in millions):

Assets	
Accounts receivable	$11.5
Costs and estimated earnings in excess of billings	11.8
Inventories	5.4
Other current assets	0.7
Property and equipment	10.8
Goodwill	9.7
Intangibles - customer relationships	16.2
Intangibles - trade names	1.6
Intangibles - non-compete	0.2
Total assets	67.9
Liabilities	
Accounts payable	10.0
Accrued and other liabilities	9.1
Total liabilities	19.1
Net Assets Acquired	$48.8

Fiscal 2015 - During the first quarter of fiscal 2015, the Company acquired Hewitt Power & Communications, Inc. ("Hewitt") for $8.0 million, net of cash acquired. Hewitt provides specialty contracting services primarily for telecommunications providers in the Southeastern United States. The Company acquired the assets of two cable installation contractors for an aggregate purchase price of $1.5 million during the second quarter of fiscal 2015. During the fourth quarter of fiscal 2015, the Company acquired Moll's Utility Services, LLC ("Moll's") for $6.5 million, net of cash acquired. Moll's provides specialty contracting services primarily for utilities in the Midwest United States. The Company also acquired the assets of Venture Communications Group, LLC ("Venture") for $15.6 million during the fourth quarter of fiscal 2015. Venture provides specialty contracting services primarily for telecommunications providers in the Midwest and Southeastern United States. Purchase price allocations of businesses acquired during the fourth quarter of fiscal 2015 are preliminary and will be completed during fiscal 2016 when valuations are finalized for intangible assets and other amounts.

The results of these acquisitions are included in the condensed consolidated financial statements from their respective dates of acquisition. The results from businesses acquired during fiscal 2016 and fiscal 2015 were not considered material to the Company's condensed consolidated financial statements, individually or in the aggregate.

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4. Accounts Receivable

Accounts receivable consisted of the following:

	October 24, 2015	July 25, 2015
	(Dollars in thousands)	
Contract billings	$335,812	$292,029
Retainage	27,509	24,321
Total	363,321	316,350
Less: allowance for doubtful accounts	(1,686)	(1,216)
Accounts receivable, net	$361,635	$315,134

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 increase in accounts receivable and retainage during the three months ended October 24, 2015 is the result of higher levels of work performed. The Company maintains an allowance for doubtful accounts for estimated losses on uncollected balances. During the three months ended October 24, 2015 and October 25, 2014, write-offs to the allowance for doubtful accounts, net of recoveries, were not material. During the three months ended October 24, 2015, the Company collected all past due receivables outstanding as of July 25, 2015 from a customer for a project funded by the Rural Utilities Service of the United States Department of Agriculture under the American Recovery and Reinvestment Act of 2009. As of October 24, 2015, there were no material accounts receivable amounts representing claims or other similar items subject to uncertainty.

5. Costs and Estimated Earnings in Excess of Billings

Costs and estimated earnings in excess of billings ("CIEB") include revenue for services from contracts based both on the units-of-delivery and the cost-to-cost measures of the percentage of completion method. Amounts consisted of the following:

	October 24, 2015	July 25, 2015
	(Dollars in thousands)	
Costs incurred on contracts in progress	$285,180	$240,077
Estimated to date earnings	89,824	72,446
Total costs and estimated earnings	375,004	312,523
Less: billings to date	(53,761)	(54,689)
	$321,243	$257,834
Included in the accompanying condensed consolidated balance sheets under the captions:		
Costs and estimated earnings in excess of billings	$333,659	$274,730
Billings in excess of costs and estimated earnings	(12,416)	(16,896)
	$321,243	$257,834

As of October 24, 2015, 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 24, 2015 or July 25, 2015.

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6. Property and Equipment

Property and equipment consisted of the following:

	Estimated Useful Lives (Years)	October 24, 2015	July 25, 2015
		(Dollars in thousands)	
Land	—	$3,475	$3,475
Buildings	10-35	11,944	11,944
Leasehold improvements	1-10	10,961	8,491
Vehicles	1-5	344,497	316,979
Computer hardware and software	1-7	86,925	80,091
Office furniture and equipment	1-7	7,604	8,183
Equipment and machinery	1-10	210,421	194,943
Total		675,827	624,106
Less: accumulated depreciation		(410,342)	(392,542)
Property and equipment, net		$265,485	$231,564

Depreciation expense was $22.7 million and $18.8 million for the three months ended October 24, 2015 and October 25, 2014, respectively.

7. Goodwill and Intangible Assets

Goodwill

The Company's goodwill balance was $281.4 million and $271.7 million as of October 24, 2015 and July 25, 2015, respectively. The increase in goodwill during fiscal 2016 was primarily from the acquisition of TelCom. Changes in the carrying amount of goodwill for fiscal 2016 were as follows:

	Goodwill	Accumulated Impairment Losses	Total
	(Dollars in thousands)		
Balance as of July 25, 2015	$467,420	$(195,767)	$271,653
Purchase price allocation adjustments	101	—	101
Goodwill from fiscal 2016 acquisitions	9,694	—	9,694
Balance as of October 24, 2015	$477,215	$(195,767)	$281,448

The full amount of goodwill from fiscal 2016 acquisitions is expected to be deductible for tax purposes. Goodwill largely consists of expected synergies resulting from the acquisitions, including the expansion of the Company's geographic scope and strengthening of its customer base.

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 2015 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 24, 2015, the Company believes the goodwill is recoverable for all of the reporting units; however, there can be no assurances that the goodwill will not be impaired in future periods.

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Intangible Assets

The Company's intangible assets consisted of the following:

	Weighted Average Remaining Useful Lives	October 24, 2015	July 25, 2015
	(Years)	(Dollars in thousands)	
Gross carrying amount:			
Customer relationships	11.8	$211,575	$195,375
Contract backlog	0.9	8,076	8,076
Trade names	6.9	9,800	8,200
UtiliQuest trade name	—	4,700	4,700
Non-compete agreements	3.0	835	635
		234,986	216,986
Accumulated amortization:			
Customer relationships		87,936	83,772
Contract backlog		7,574	7,381
Trade names		4,995	4,650
Non-compete agreements		315	257
		100,820	96,060
Net Intangible Assets		$134,166	$120,926

During the three months ended October 24, 2015, the gross carrying amount of intangible assets for customer relationships, trade names, and non-compete agreements increased $16.2 million, $1.6 million, and $0.2 million, respectively, as a result of the preliminary allocation of the purchase price of TelCom.

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 $4.8 million and $4.1 million for the three months ended October 24, 2015 and October 25, 2014, respectively.

Estimated total amortization expense for existing finite-lived intangible assets for the remainder of fiscal 2016 and each of the five succeeding fiscal years and thereafter is as follows:

Period	Amount
	(Dollars in thousands)
Nine months ending July 30, 2016	$14,157
2017	17,419
2018	15,125
2019	12,771
2020	11,861
2021	10,333
Thereafter	47,800
Total	$129,466

As of October 24, 2015, 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.

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8. Accrued Insurance Claims

For claims within the Company's insurance program, it retains the risk of loss, up to certain limits, for matters related to automobile liability, general liability, workers' compensation, employee group health, and damages associated with underground facility locating services. With regard to losses occurring in fiscal 2016, 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 a state-sponsored insurance fund. Aggregate stop-loss coverage for automobile liability, general liability, and workers' compensation claims is $84.6 million for fiscal 2016.

The Company is party to a stop-loss agreement for losses under its employee group health plan. With regard to losses occurring in fiscal 2016, the Company retains the risk of loss, on an annual basis, of the first $250,000 of claims per participant as well as the first $550,000 of claim amounts that aggregate across those participants having claims that exceed $250,000.

The liability for total accrued insurance claims and related processing costs was $88.0 million and $87.3 million as of October 24, 2015 and July 25, 2015, respectively, of which $49.9 million and $51.5 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 24, 2015 and July 25, 2015, respectively, were $6.5 million and $9.5 million, of which $0.6 million and $0.6 million was included in other current assets and $5.9 million and $8.9 million was included in non-current other assets.

9. Other Accrued Liabilities

Other accrued liabilities consisted of the following:

	October 24, 2015	July 25, 2015
	(Dollars in thousands)	
Accrued payroll and related taxes	$23,441	$18,673
Accrued employee benefit and incentive plan costs	15,292	29,528
Accrued construction costs	28,386	26,395
Income taxes payable	18,688	8,916
Other current liabilities	16,972	14,894
Total other accrued liabilities	$102,779	$98,406

10. Debt

The Company's outstanding indebtedness consisted of the following:

	October 24, 2015	July 25, 2015
	(Dollars in thousands)	
Credit Agreement - Revolving facility (matures April 2020)	$131,250	$95,250
Credit Agreement - Term Loan (matures April 2020)	150,000	150,000
0.75% senior convertible notes, net (matures September 2021)	360,384	—
7.125% senior subordinated notes due 2021	—	277,500
Long-term debt premium on 7.125% senior subordinated notes	—	2,841
	641,634	525,591
Less: current portion	(5,625)	(3,750)
Long-term debt	$636,009	$521,841

Senior Credit Agreement

The Company and certain of its subsidiaries are party to a credit agreement with various lenders named therein (the "Credit Agreement") dated as of December 3, 2012 (as amended as of April 24, 2015 and September 9, 2015) that matures on April 24, 2020. The Credit Agreement provides for a $450 million revolving facility and $150 million term loan facility and contains a sublimit for the issuance of letters of credit of $200 million. Subject to certain conditions, the Credit Agreement provides the Company the ability to enter into one or more incremental facilities, up to the greater of (i) $150 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 is 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 certain of the Company's wholly-owned subsidiaries.

Borrowings under the Credit Agreement (other than Swingline Loans, as defined in the Credit Agreement) bear interest at a rate equal to either (a) the Eurodollar rate (based on LIBOR) plus an applicable margin, or (b) the administrative agent's base rate, 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. In each case, the applicable margin is 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. For the quarter ending October 24, 2015, borrowings under the Credit Agreement were eligible for an applicable margin of 1.75% for borrowings based on the Eurodollar rate and 0.75% for borrowings based on the administrative agent's base rate. For the quarter ending January 23, 2016, borrowings under the Credit Agreement will be eligible for an applicable margin of 2.00% for borrowings based on the Eurodollar rate and 1.00% for borrowings based on the administrative agent's base rate. Swingline loans, if any, bear interest at a rate equal to the administrative agent's base rate plus an applicable margin based upon the Company's consolidated leverage ratio.

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.

The Company incurs fees that range from 0.25% to 0.40% per annum for unused revolver balances based upon the Company's consolidated leverage ratio. In addition, fees for outstanding standby letters of credit range from 1.25% to 2.00% per annum and fees for outstanding commercial letters of credit range from 0.625% to 1.000% per annum, in each case based on the Company's consolidated leverage ratio.

The Company had $150.0 million of outstanding principal amount under the term loan as of October 24, 2015 and July 25, 2015, which accrued interest at 1.95% per annum and 1.94% per annum, respectively. Additionally, outstanding revolver borrowings were $131.3 million and $95.3 million as of October 24, 2015 and July 25, 2015, respectively. Revolver borrowings consisted of borrowings at the applicable Eurodollar rate or the base rate and accrued interest at a weighted average rate of approximately 2.10% and 2.02% per annum as of October 24, 2015 and July 25, 2015, respectively.

Standby letters of credit of approximately $58.0 million and $54.4 million, issued as part of the Company's insurance program, were outstanding under the Credit Agreement as of October 24, 2015 and July 25, 2015, respectively. Interest on outstanding standby letters of credit accrued at 1.75% per annum as of both October 24, 2015 and July 25, 2015. The unused facility fee was 0.35% of unutilized commitments at both October 24, 2015 and July 25, 2015.

At October 24, 2015 and July 25, 2015, the Company was in compliance with the financial covenants of the Credit Agreement and had additional borrowing availability of $260.8 million and $300.3 million, respectively, as determined by the most restrictive covenants of the Credit Agreement.

0.75% Convertible Senior Notes Due 2021

On September 15, 2015, the Company issued $485 million principal amount of 0.75% senior convertible notes due 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.

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The Notes, governed by the terms of an indenture between the Company and U.S. Bank National Association, as 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 beginning on March 15, 2016, 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. 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 (as defined in the indenture) 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 $1.8 million of interest expense during the three months ended October 24, 2015 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.

The Notes consist of the following components:

	October 24, 2015 (Dollars in thousands)	
Liability component		
Principal amount of 0.75% senior convertible notes due 2021	$485,000	
Less: Debt discount	(114,608	)

Less: Debt issuance costs attributable to the liability component[1]	(10,008)
Net carrying amount of Notes	$360,384
Equity Component[2]	$112,554

[1] 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 $10.1 million of issuance costs paid to the initial purchasers of the Notes was allocated to the liability component and recorded as a contra-liability, presented net against the carrying amount of the Notes on the Company's condensed consolidated balance sheets, of which $10.0 million remains unamortized as of October 24, 2015. Approximately $1.3 million of issuance costs paid to third parties was allocated to the liability component and recorded as deferred costs within other assets in the Company's condensed consolidated balance sheets. 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 quarter ended October 24, 2015, the Company recorded $0.1 million 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 24, 2015 was approximately $376.7 million, based on quoted market prices (level 2), compared to a $360.4 million net carrying amount. The fair value and net carrying amount are both reflected net of the debt discount of $114.6 million and debt issuance costs attributable to the liability component of $10.0 million as of October 24, 2015.

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 as of October 24, 2015 and are not expected to be remeasured in subsequent reporting periods.

The Company recorded a deferred tax liability of $43.4 million in connection with the debt discount associated with the Notes and recorded a deferred tax asset of $43.2 million in connection with the convertible note hedge transactions. Both the deferred tax liability and deferred tax assets are included in non-current deferred tax liabilities on the condensed consolidated balance sheets as of October 24, 2015.

Senior Subordinated Notes Due 2021 - 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 all 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 applicable 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 three months ended October 24, 2015. This charge is comprised of approximately: (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

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7.125% Notes, and (iii) $4.9 million for the write-off of deferred financing charges related to the fees incurred on the 7.125% Notes issuance.

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, the income taxes of multiple state jurisdictions and in Canada. There were immaterial amounts of pre-tax income related to Canadian operations for the three months ended October 24, 2015 and October 25, 2014. 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 2011 and prior. 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 tax receivables totaling $0.4 million and $2.1 million are included in other current assets as of October 24, 2015 and July 25, 2015, respectively. Income tax payables totaling $18.7 million and $8.9 million are included in other accrued liabilities as of October 24, 2015 and July 25, 2015, respectively.

As of both October 24, 2015 and July 25, 2015, the Company had total unrecognized tax benefits of $2.3 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 $0.9 million for the payment of interest and penalties accrued as of both October 24, 2015 and July 25, 2015, respectively. Interest expense related to unrecognized tax benefits for the Company was immaterial.

12. Other Income, Net

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

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands)	
Gain on sale of fixed assets	$1,136	$1,523
Miscellaneous income, net	333	272
Total other income, net	$1,469	$1,795

13. Capital Stock

Repurchases of Common Stock - The Company made the following share repurchases during fiscal 2015 and fiscal 2016:

Period	Number of Shares Repurchased	Total Consideration (Dollars in thousands)	Average Price Per Share
Fiscal 2015	1,669,924	$87,146	$52.19
Three months ended October 24, 2015	954,224	$69,997	$73.35

Shares repurchased during the three months ended October 24, 2015 includes shares repurchased in connection with the Notes offering in September 2015. The Company used approximately $60.0 million of the net proceeds from the Notes to repurchase 805,000 shares of its common stock from the initial purchasers of the Notes in privately negotiated transactions at a price of $74.53 per share, the closing price of Dycom's common stock on September 9, 2015. All shares repurchased have been canceled. As of October 24, 2015, $50.0 million authorized on August 25, 2015 remained available for repurchases through February 2017.

Restricted Stock Tax Withholdings - During the three months ended October 24, 2015 and October 25, 2014, the Company withheld approximately 15,301 shares and 10,931 shares, respectively, totaling $1.2 million and $0.3 million, respectively, to

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meet payroll tax withholdings obligations arising from the vesting of restricted share units. All shares withheld have been canceled. Shares withheld for tax withholdings do not reduce the Company's total share repurchase authority.

14. Stock-Based Awards

The Company has certain stock-based compensation plans which provide for the grants of stock-based awards, including stock options, restricted shares, performance shares, restricted share units, performance share units, and stock appreciation rights.

Compensation expense for stock-based awards is based on fair value at the measurement date and fluctuates over time as a result of the vesting period of the stock-based awards and Company's performance, as measured by criteria set forth in the performance-based awards. Expense is included in general and administrative expenses in the condensed consolidated statements of operations and the amount of expense ultimately recognized is based on the number of awards that actually vest. For performance-based restricted share units ("Performance RSUs"), the Company evaluates compensation expense quarterly and recognizes expense for performance-based awards only if it determines it is probable that performance criteria for the awards will be met. Accordingly, future stock-based compensation expense may vary from fiscal year to fiscal year.

Stock-based compensation expense and the related tax benefit recognized related to stock options and restricted share units during the three months ended October 24, 2015 and October 25, 2014 were as follows:

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands)	
Stock-based compensation	$4,509	$3,890
Tax benefit recognized in the statement of operations	$1,729	$1,464

As of October 24, 2015, the Company had total unrecognized compensation expense of $21.1 million related to stock options, time-based restricted share units ("RSUs") and target Performance RSUs (based on the Company's estimate of performance goal achievement) of $2.6 million, $7.1 million, and $11.4 million, respectively. This expense will be recognized over a weighted-average period of 2.4 years, 2.6 years, and 1.5 years, respectively, based on the average remaining service periods for the awards. Based on the Performance RSUs outstanding as of October 24, 2015, the Company may recognize an additional $2.9 million in compensation expense in future periods if the maximum amount of restricted share units is earned based on certain performance goals being met.

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Stock Options

The following table summarizes stock option award activity during the three months ended October 24, 2015:

	Stock Options	
	Shares	Weighted Average Exercise Price
Outstanding as of July 25, 2015	915,323	$16.86
Options exercised	(12,788)	$10.84
Canceled	(800)	$13.88
Outstanding as of October 24, 2015	901,735	$16.95
Exercisable options as of October 24, 2015	643,467	$13.52

RSUs and Performance RSUs

The following table summarizes RSU and Performance RSU activity during the three months ended October 24, 2015:

	Restricted Stock RSUs		Performance RSUs	
	Share Units	Weighted Average Grant Price	Share Units	Weighted Average Grant Price
Outstanding as of July 25, 2015	322,008	$24.46	945,540	$26.46
Granted	32,451	$63.19	33,116	$75.79
Share units vested	(783)	$64.00	(39,190)	$22.84
Forfeited or canceled	(1,820)	$25.62	(176,008)	$21.32
Outstanding as of October 24, 2015	351,856	$27.94	763,458	$29.97

The total amount of granted Performance RSUs presented above consists of 16,558 target shares and 16,558 supplemental shares granted to officers. During the three months ended October 24, 2015, the Company canceled approximately 169,790 supplemental shares of Performance RSUs outstanding as of July 25, 2015, as a result of fiscal 2015 performance criteria for attaining supplemental shares not being met. The total amount of Performance RSUs outstanding as of October 24, 2015 consists of 688,453 target shares and 75,005 supplemental shares.

15. Related Party Transactions

The Company leases certain administrative offices and equipment as well as pays for certain subcontracting services and materials from officers of its subsidiaries and entities related to officers of its subsidiaries. Expenses under these arrangements for the three months ended October 24, 2015 and October 25, 2014 were as follows:

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
	(Dollars in thousands)	
Real property and equipment leases	$750	$429

Subcontractors and materials expense	$1,092	$502

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The Company believes that all related party transactions have been conducted on an arms-length basis with terms that are similar to those available from third parties.

16. Concentration of Credit Risk

The Company's customer base is highly concentrated, with its top five customers accounting for approximately 64.9% and 59.4% of its total revenues during the three months ended October 24, 2015 and October 25, 2014, respectively. Customers whose revenues exceeded 10% of total revenue during the three months ended October 24, 2015 or October 25, 2014 were as follows:

	For the Three Months Ended	
	October 24, 2015	October 25, 2014
AT&T Inc.	19.1%	21.2%
CenturyLink, Inc.	15.6%	13.1%
Comcast Corporation	12.0%	12.8%

Certain customers represented 10% or more of combined amounts of trade accounts receivable and costs and estimated earnings in excess of billings, net ("CIEB, net") as of October 24, 2015 or July 25, 2015. AT&T Inc. represented $115.8 million, or 16.9% of combined amounts of trade receivables and CIEB, net as of October 24, 2015 and $101.7 million, or 17.7% as of July 25, 2015. CenturyLink, Inc. represented $100.8 million, or 14.7% of combined amounts of trade receivables and CIEB, net as of October 24, 2015 and $80.1 million, or 14.0% as of July 25, 2015. Windstream Corporation represented $71.8 million, or 10.5% of combined amounts of trade receivables and CIEB, net as of October 24, 2015 and $47.8 million, or 8.3% as of July 25, 2015. Comcast Corporation represented $70.6 million, or 10.3% of combined amounts of trade receivables and CIEB, net as of October 24, 2015 and $63.0 million, or 11.0% as of July 25, 2015. Additionally, another customer represented $89.9 million, or 13.1% of combined amounts of trade receivables and CIEB, net as of October 24, 2015 and $64.5 million, or 11.2% as of July 25, 2015.

The Company believes that none of its significant customers were experiencing financial difficulties that would materially impact the collectability of the Company's trade accounts receivable and costs in excess of billings as of October 24, 2015 and July 25, 2015. See Note 4, Accounts Receivable, and Note 5, Costs and Estimated Earnings in Excess of Billings, for additional information regarding the Company's trade accounts receivable and costs and estimated earnings in excess of billings.

17. Commitments and Contingencies

In May 2013, CertusView Technologies, LLC ("CertusView"), a wholly-owned subsidiary of the Company, filed suit against S & N Communications, Inc. and S & N Locating Services, LLC in the United States District Court for the Eastern District of Virginia alleging infringement of certain United States patents. In January 2015, the District Court granted defendants' motion for judgment on the pleadings for failure to claim patent-eligible subject matter, and entered final judgment on those claims the same day. CertusView filed a Notice of Appeal in February 2015 with the Court of Appeals for the Federal Circuit. In May 2015, the District Court re-opened the case to allow defendants to proceed with inequitable conduct counterclaims. In July 2015, the Court of Appeals dismissed the appeal in that court pending resolution of proceedings in the District Court. A bench trial in the District Court on the inequitable conduct counterclaims has been scheduled for March 2016. An unfavorable outcome for the inequitable conduct counterclaims may result in an award of attorneys' fees, costs, and expenses. It is too early to evaluate the likelihood of an outcome to this matter. The Company intends to vigorously defend itself against the remaining counterclaims and appeal the District Court's ruling with respect to the patent-eligible subject matter.

From time to time, the Company is party to various other claims and legal proceedings. It is the op