MYR GROUP INC.
Form 10-Q
May 09, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number: 1-08325

MYR GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-3158643**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Three Continental Towers	**60008-4210**
1701 Golf Road, Suite 3-1012	(Zip Code)
Rolling Meadows, IL	
(Address of principal executive offices)	

(847) 290-1891
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the "Exchange Act") 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 ý No o

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 o No o

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

Large accelerated filer o	Accelerated filer ý	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of April 29, 2011 there were 20,131,139 outstanding shares of the registrant's $0.01 par value common stock.

WEB SITE ACCESS TO COMPANY'S REPORTS

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

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

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MYR GROUP INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 44,713	$ 62,623
Accounts receivable, net of allowances of $924 and $947, respectively	91,856	107,172
Costs and estimated earnings in excess of billings on uncompleted contracts	35,410	29,299
Deferred income tax assets	10,544	10,544
Receivable for insurance claims in excess of deductibles	8,385	8,422
Refundable income taxes		2,144
Other current assets	3,012	3,719
Total current assets	193,920	223,923
Property and equipment, net of accumulated depreciation of $51,044 and $46,878, respectively	103,064	96,591
Goodwill	46,599	46,599
Intangible assets, net of accumulated amortization of $1,972 and $1,888, respectively	11,120	11,204
Other assets	1,397	1,831
Total assets	$ 356,100	$ 380,148
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 33,950	$ 41,309
Billings in excess of costs and estimated earnings on uncompleted contracts	42,825	45,505
Accrued self insurance	34,133	34,044
Accrued income taxes	258	
Other current liabilities	18,272	17,974
Total current liabilities	129,438	138,832
Long-term debt, net of current maturities	10,000	30,000
Deferred income tax liabilities	17,971	17,971
Other liabilities	686	636
Total liabilities	158,095	187,439
Commitments and contingencies		
Stockholders' equity:		
Preferred stock $0.01 par value per share; 4,000,000 authorized shares; none issued and outstanding at March 31, 2011 and December 31, 2010		

Common stock $0.01 par value per share; 100,000,000 authorized shares; 20,130,389 and 20,007,081 shares issued and 20,127,079 and 20,007,081 shares outstanding at March 31, 2011 and December 31, 2010, respectively		201		200
Additional paid-in capital		146,024		145,149
Retained earnings		51,860		47,360
Treasury stock 3,310 and 0 shares, respectively		(80)		
Total stockholders' equity		198,005		192,709
Total liabilities and stockholders' equity	$	356,100	$	380,148

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

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MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended March 31, 2011	Three months ended March 31, 2010
Contract revenues	$ 150,294	$ 148,889
Contract costs	128,705	133,720
Gross profit	21,589	15,169
Selling, general and administrative expenses	13,953	10,564
Amortization of intangible assets	84	84
Gain on sale of property and equipment	(71)	(190)
Income from operations	7,623	4,711
Other income (expense)		
Interest income	29	11
Interest expense	(210)	(203)
Other, net	(22)	(30)
Income before provision for income taxes	7,420	4,489
Income tax expense	2,920	1,709
Net income	$ 4,500	$ 2,780
Income per common share:		
Basic	$ 0.23	$ 0.14
Diluted	$ 0.21	$ 0.13
Weighted average number of common shares and potential common shares outstanding:		
Basic	19,983	19,821
Diluted	20,934	20,733

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

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MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 4,500	$ 2,780
Adjustments to reconcile net income to net cash flows provided by operating activities		
Depreciation and amortization of property and equipment	4,247	3,940
Amortization of intangible assets	84	84
Stock-based compensation expense	348	424
Excess tax benefit from stock-based awards	(169)	(16)
Gain on sale of property and equipment	(71)	(190)
Other non-cash items	44	21
Changes in operating assets and liabilities		
Accounts receivable, net	15,316	14,301
Costs and estimated earnings in excess of billings on uncompleted contracts	(6,111)	(1,153)
Receivable for insurance claims in excess of deductibles	37	(370)
Other assets	3,241	541
Accounts payable	(5,856)	(9,544)
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,680)	(6,989)
Accrued self insurance	89	295
Other liabilities	775	(3,491)
Net cash flows provided by operating activities	13,794	633
Cash flows from investing activities:		
Proceeds from sale of property and equipment	71	190
Purchases of property and equipment	(12,223)	(1,382)
Net cash flows used in investing activities	(12,152)	(1,192)
Cash flows from financing activities:		
Payments on term loan	(20,000)	
Payments of capital lease obligations		(16)
Employee stock option transactions	359	103
Excess tax benefit from stock-based awards	169	16
Purchase of Treasury stock	(80)	
Net cash flows provided by (used in) financing activities	(19,552)	103
Net decrease in cash and cash equivalents	(17,910)	(456)
Cash and cash equivalents:		
Beginning of period	62,623	37,576
End of period	$ 44,713	$ 37,120

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

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except share and per share data)

1. Organization and Business

MYR Group Inc. (the "Company") consists of the following wholly owned subsidiaries: The L. E. Myers Co., a Delaware corporation; Hawkeye Construction, Inc., an Oregon corporation; Harlan Electric Company, a Michigan corporation; Sturgeon Electric Company, Inc., a Michigan corporation; MYR Transmission Services, Inc., a Delaware corporation; ComTel Technology Inc., a Colorado corporation; MYRpower, Inc., a Delaware corporation and Great Southwestern Construction, Inc., a Colorado corporation.

The Company performs construction services in two business segments: Transmission and Distribution ("T&D"), and Commercial and Industrial ("C&I"). T&D customers include electric utilities, cooperatives and municipalities nationwide. The Company provides a broad range of services, which includes design, engineering, procurement, construction, upgrade, maintenance and repair services with a particular focus on construction, maintenance and repair throughout the continental United States. The Company also provides C&I electrical contracting services to facility owners and general contractors in the western United States.

2. Basis of Presentation

Interim Consolidated Financial Information

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting and pursuant to the rules and regulations of the SEC. Certain information and note disclosures typically included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with these rules and regulations. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the financial condition of the Company as of March 31, 2011, and the results of operations, and cash flows for the three months ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results for the full year or the results for any future periods. The consolidated balance sheet as of December 31, 2010 has been derived from the audited financial statements as of that date. These financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2010, included in the Company's annual report on Form 10-K.

Use of Estimates

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

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

2. Basis of Presentation (Continued)

Recently Issued Accounting Pronouncements

Typically, changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASU's") to the FASB's Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASU's. The Company, based on its assessment, determined that any recent ASU's not listed below are either not applicable to the Company or have minimal impact on our consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06 to ASC 820 which required new disclosures and clarified existing disclosures about fair value measurement. Specifically, this update amends ASC 820 to now require: (a) a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers; and (b) in the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements. In addition, this update clarifies the requirements of the following existing disclosures: (a) for purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and (b) a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This update became effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which became effective for interim and reporting periods beginning after December 15, 2010. The adoption of this standard modification did not have an impact on the Company's consolidated financial condition, results of operations or cash flows, and there were no material impacts to the Company's financial statement disclosures.

3. Fair Value Measurements

The accounting guidance provided by ASC 820 defines fair value, establishes methods used to measure fair value, and expands disclosure requirements about fair value measurements. The fair value accounting guidance establishes a three-tier hierarchy of fair value measurement, which prioritizes the inputs used in measuring fair value based upon their degree of availability in external active markets. These tiers include: Level 1 (the highest priority), defined as observable inputs, such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 (the lowest priority), defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2011, the carrying value of cash and cash equivalents, accounts receivable and payable, accrued liabilities, and certain other financial assets and liabilities approximated fair value due to the short maturities of these instruments.

As of March 31, 2011, the Company held cash equivalents that were subject to the disclosure requirements of the fair value accounting guidance. These items included money market funds held in deposit at a national bank and short-term certificates of deposit held on account under the Certificate of Deposit Account Registry Services (CDARS) program. The combined net carrying value of the Company's cash equivalents was $25,076, which was equal to the fair value at March 31, 2011 based

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

3. Fair Value Measurements (Continued)

upon Level 1 inputs. The reduction from the December 31, 2010 net carrying value of $45,342 was primarily due to $20,000 in prepayments made on the Company's term loan.

The carrying amount reported in the consolidated balance sheet as of March 31, 2011 for long-term debt was $10,000. The reduction from the December 31, 2010 carrying amount of $30,000 was due to prepayments made on the Company's term loan. Using a discounted cash flow technique that incorporates a market interest rate adjusted for risk profile based upon Level 3 inputs, the Company estimated the fair value of its debt to be $9,895 at March 31, 2011.

4. Supplemental Cash Flows

Supplemental disclosures of cash flow information are as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Cash paid during the period for:		
Income taxes	$ 288	$ 1,365
Interest expense	168	183
Noncash investing activities:		
Acquisition of property and equipment for which payment was pending	1,846	211

As of March 31, 2011, the Company had recorded additional property and equipment of approximately $1,846 for which payment was pending. As of December 31, 2010, the Company had purchased $3,349 of property and equipment for which payment was pending, all of which was paid during the three months ended March 31, 2011.

5. Contracts in Process

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

	March 31, 2011	December 31, 2010
Costs incurred on uncompleted contracts	$ 869,146	$ 810,463
Estimated earnings	101,322	92,102
	970,468	902,565
Less: Billings to date	977,883	918,771
	$ (7,415)	$ (16,206)

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

5. Contracts in Process (Continued)

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

	March 31, 2011	December 31, 2010
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 35,410	$ 29,299
Billings in excess of costs and estimated earnings on uncompleted contracts	(42,825)	(45,505)
	$ (7,415)	$ (16,206)

6. Income Taxes

The difference between the U.S. federal statutory tax rate of 35% and the Company's effective tax rates for the three months ended March 31, 2011 and 2010 was principally due to state income taxes.

The Company had approximately $672 and $612 of total unrecognized tax benefits as of March 31, 2011 and December 31, 2010, respectively, which was included in other liabilities in the accompanying consolidated balance sheets. For the three months ended March 31, 2011, the Company recorded an additional $60 in unrecognized tax benefits related to the net activity of current and prior year positions.

The Company's policy is to recognize interest and penalties related to income tax liabilities as a component of income tax expense in the consolidated statements of operations. The amount of interest and penalties charged to income tax expense as a result of the unrecognized tax benefits was an expense of $34 and a benefit of $2, for the three months ended March 31, 2011 and 2010, respectively.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for certain open tax years (2009 and 2010), and by various state authorities for the years 2006 through 2010.

7. Commitments and Contingencies

Letters of Credit

At both March 31, 2011 and December 31, 2010, the Company had one outstanding irrevocable standby letter of credit totaling $15,000 related to the Company's payment obligation under its insurance programs.

Leases

The Company leases real estate and construction and office equipment under operating leases with terms ranging from one to five years. As of March 31, 2011, future minimum lease payments for these operating leases were as follows: $4,834 for the remainder of 2011, $4,232 for 2012, $1,797 for 2013, $548 for 2014, and $106 for 2015.

MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

7. Commitments and Contingencies (Continued)

The Company has guaranteed the residual value of the underlying assets under certain equipment operating leases at the date of termination of such leases. The Company has agreed to pay any differences between this residual value and the fair market value of each underlying asset as of the lease termination date. As of March 31, 2011, the maximum guaranteed residual value was approximately $552. The Company does not believe that significant payments will be made as a result of the difference between the fair market value of the leased equipment and the guaranteed residual value. However, there can be no assurance that future payments will not be required.

Purchase Commitments for Construction Equipment

As of March 31, 2011, the Company has approximately $9,450 in outstanding purchase orders for certain construction equipment with cash outlay requirements scheduled to occur in the second quarter.

Employment Agreements

As of December 31, 2009, the Company had recorded a contingent severance payment liability of approximately $1,628 related to the employment agreements it entered into with six executive officers in December 2007. The liability represented the amount the named executive officers would have been eligible to receive under the terms of the employment agreements if they were to voluntarily terminate employment without "good reason" (as defined in the employment agreements.) In March 2010, the Company amended and restated the employment agreements, and, among other things, removed the provision for severance pay that would have been payable upon a voluntary termination without good reason. The revised severance pay provisions in the employment agreements are all under the employer's control. As a result, the Company eliminated the $1,628 liability related to this provision. The benefit of reversing this liability was included as a reduction to selling, general and administrative expenses in the accompanying consolidated statement of operations for the three months ended March 31, 2010.

Surety Bonds

In certain circumstances, the Company is required to provide performance bonds in connection with its future performance on contractual commitments. The Company has indemnified its sureties for any expenses paid out under these performance bonds. As of March 31, 2011, the total amount of outstanding performance bonds was approximately $818,500, and the estimated cost to complete these bonded projects was approximately $408,751.

Collective bargaining agreements

Many of the Company's subsidiaries' field labor employees are covered by collective bargaining agreements. The agreements require the subsidiaries to pay specified wages, provide certain benefits and contribute certain amounts to multi-employer pension plans. If a subsidiary withdraws from one or more multi-employer pension plans or if the plans were to otherwise become underfunded, the subsidiary could be assessed liabilities for additional contributions related to the underfunding of these plans. Although the Company has been informed that several of the multi-employer pension plans to which our subsidiaries contribute have been labeled with a "critical" status, the Company is not aware of any potential significant liabilities related to this issue.

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

7. Commitments and Contingencies (Continued)

Litigation and Other Legal Matters

The Company is from time to time party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract and/or property damages, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to all such lawsuits, claims and proceedings, the Company records reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not believe that any of these proceedings, separately or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

The Company is routinely subject to other civil claims, litigation and arbitration, and regulatory investigations arising in the ordinary course of our present business as well as in respect of our divested businesses. Some of these include claims related to our current services and operations, and asbestos-related claims concerning historic operations of a predecessor affiliate. The Company believes that it has strong defenses to these claims as well as adequate insurance coverage in the event any asbestos-related claim is not resolved in our favor. These claims have not had a material impact on the Company to date and the Company believes that the likelihood that a future material adverse outcome will result from these claims is remote. However, if facts and circumstances change in the future, the Company cannot be certain that an adverse outcome of one or more of these claims would not have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

8. Stock-Based Compensation

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

Stock Options

On March 24, 2011, the Company granted options to purchase 90,080 shares of the Company's common stock to various employees, including the Company's executive officers. The grant date fair value of these options, using the Black-Scholes-Merton option-pricing model, was approximately $11.88 per share. These options will vest ratably over a three-year period. The Company issued 65,873 new shares to option holders upon the exercise of vested stock options in the three months ended March 31, 2011. Total intrinsic value of options exercised was $1,060 for the three months ended March 31, 2011.

Restricted Stock

On March 24, 2011, the Company granted restricted stock awards covering 41,230 shares of common stock to various employees, including the Company's executive officers, and 17,367 shares of

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8. Stock-Based Compensation (Continued)

common stock to eligible members of the Board of Directors. The grant date fair value of the restricted stock was $24.18, which was equal to the closing market price of the Company's common stock on the date of grant. Also on March 24, 2011, a total of 11,128 shares of restricted stock from a prior grant became vested and taxable to the individual holder of the restricted stock awards. The Company repurchased 3,310 shares at $24.18 per share for a total cost of $80. These shares were repurchased to settle shares withheld for taxes due by holders of the restricted stock awards. The Company's repurchases of shares of common stock are recorded at cost and result in a reduction of stockholders' equity.

Performance Awards

On March 24, 2011, the Company granted performance stock awards covering 34,179 shares of common stock, at target level, to certain key management personnel, including the Company's executive officers. The grant date fair value of the performance stock awards was $24.18, which was equal to the closing market price of the Company's common stock on the date of grant. The performance stock awards will cliff vest on the third anniversary of the performance period, subject to the achievement of certain specified levels of the Company's average return-on-equity ("ROE") over the performance period.

Stock-Compensation Expense

The Company recognizes stock-based compensation expense on a straight-line basis over the vesting period. Stock-based compensation cost is adjusted for changes in estimated and actual forfeitures and also for changes in estimated performance shares that will be earned. The Company recognized stock-based compensation expense of approximately $348 and $424 for the three months ended March 31, 2011 and 2010, respectively, which was included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Stock-based compensation expense for the three months ended March 31, 2011 included a net reduction in expense of $162 for a change in the estimated forfeiture rates for the various awards and a change in the estimated number of performance shares that are expected to be earned. As of March 31, 2011, there was approximately $5,246 of total unrecognized stock-based compensation cost related to awards granted under the LTIP, net of estimated forfeitures. Total unrecognized compensation cost will be adjusted for any future changes in estimated and actual forfeitures.

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

9. Segment Information

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

	Three months ended March 31, 2011	Three months ended March 31, 2010
Contract revenues:		
T&D	$ 118,025	$ 102,834
C&I	32,269	46,055
	$ 150,294	$ 148,889
Operating income (loss):		
T&D	$ 13,543	$ 6,123
C&I	852	2,214
General Corporate	(6,772)	(3,626)
	$ 7,623	$ 4,711

10. Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding for the reporting period. Diluted earnings per share is computed similarly, except that it reflects the potential dilutive impact that would occur if dilutive securities were exercised into common shares.

The Company has issued restricted stock awards which vest over a service period that ranges from three to five years. These awards contain non-forfeitable rights to dividends or dividend equivalents. Awards containing such rights that are unvested are considered to be participating securities and would be included in the computation of earnings per share pursuant to the two-class method. Under the two-class method, earnings are allocated between the Company's common stockholders and participating securities. The application of the two-class method during the three months ended March 31, 2011 and 2010 did not have a material impact on the earnings per share calculation.

The weighted average number of common shares used to compute basic and diluted net income per share was as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Weighted average basic common shares outstanding	19,983,115	19,821,127
Potential common shares arising from stock options and restricted stock	951,180	912,160
Weighted average diluted common shares outstanding	20,934,295	20,733,287

For the three months ended March 31, 2011 and 2010, potential common shares related to the assumed exercise of 90,080 and 106,912 stock options, respectively, were excluded from the diluted

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MYR GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands, except share and per share data)

10. Earnings Per Share (Continued)

earnings per share calculation because the exercise price of those options was greater than the average market price of the common shares (anti-dilutive). For the three months ended March 31, 2011 and 2010, potential common shares related to the unvested portion of performance awards of 59,755 and 40,741, respectively, were excluded from the denominator of the diluted earnings per share calculation as either the underlying performance obligation was not met as of the end of those periods or the inclusion would have been anti-dilutive for the applicable three-month period. For the three months ended March 31, 2010, 40,741 potential common shares related to the unvested portion of restricted stock were excluded from the denominator of the diluted earnings per share calculation as the inclusion would have been anti-dilutive for the three-month period.

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

The following discussion should be read in conjunction with the accompanying consolidated financial statements as of March 31, 2011 and December 31, 2010, and for the three months ended March 31, 2011 and 2010, and with our annual report on Form 10-K for the year ended December 31, 2010 (the "2010 Annual Report"). In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed herein under the captions labeled "Cautionary Statement Concerning Forward-Looking Statements and Information" and "Risk Factors," as well as in the 2010 Annual Report. We assume no obligation to update any of these forward-looking statements.

Overview

We are a leading specialty contractor serving the electrical infrastructure market in the United States. We are one of the largest national contractors servicing the T&D sector of the United States electric utility industry. Our T&D customers include electric utilities, cooperatives and municipalities. We provide a broad range of services which includes design, engineering, procurement, construction, upgrade, maintenance and repair services with a particular focus on construction, maintenance and repair throughout the continental United States. We also provide C&I electrical contracting services to facility owners and general contractors in the western United States.

Our results have been driven primarily by successful bids for, and execution of, large projects, our ability to capitalize on increased infrastructure spending in our markets and the breadth of our customer base. We believe our centralized fleet and skilled workforce provide us with a competitive advantage as planned increased spending in the transmission infrastructure market could result in an increase in demand for a limited supply of specialized equipment and labor. We expect to grow our business organically, as well as through selectively considered strategic acquisitions that may improve our competitive position within our existing markets, expand our geographic footprint or strengthen our fleet.

Our business is directly impacted by the level of spending on transmission and distribution infrastructure throughout the United States and the level of commercial and industrial activity. We believe that the recent economic conditions in the United States have caused some of our customers in certain areas of our business to reduce or delay their capital spending programs, and, as a result, competition has increased for the projects available for us to bid. The timing of the work on large project awards is subject to regulatory approvals, permitting, right-of-way acquisitions, financing, engineering, material procurement and other factors.

We had consolidated revenues, for the three months ended March 31, 2011, of $150.3 million, of which 78.5% was attributable to our T&D customers and 21.5% was attributable to our C&I customers. For the three months ended March 31, 2011 our net income and EBITDA(1) were $4.5 million and $11.9 million, respectively, compared to $2.8 million and $8.7 million, respectively, for the three months ended March 31, 2010.

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(1) EBITDA, a performance measure used by management, is defined as net income plus: interest income and expense, provision for income taxes and depreciation and amortization, as shown in the following table. EBITDA, a non-GAAP financial measure, does not purport to be an alternative to net income as a measure of operating performance or to net cash flows provided by operating activities as a measure of liquidity. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly-titled measures of other companies. We use, and we believe investors benefit from the presentation of, EBITDA in evaluating our operating performance because it provides us and our investors with an additional tool to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. We believe that EBITDA is useful to investors and other external users of our financial statements in evaluating our operating performance and cash

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flow because EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired.

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

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

	Three months ended March 31,	
(dollars in thousands)	**2011**	**2010**
Reconciliation of Net Income to EBITDA:		
Net Income	$ 4,500	$ 2,780
Add:		
Interest expense (income), net	181	192
Provision for income taxes	2,920	1,709
Depreciation & amortization	4,331	4,024
EBITDA	$ 11,932	$ 8,705

We also use EBITDA as a liquidity measure. We believe that EBITDA is important in analyzing our liquidity because it is a key component of certain material covenants contained within our syndicated credit facility (the "Credit Agreement"). Non-compliance with these financial covenants under the Credit Agreement our interest coverage ratio and our leverage ratio could result in our lenders requiring us to immediately repay all amounts borrowed. If we anticipated a potential covenant violation, we would seek relief from our lenders, likely causing us to incur additional cost, and such relief might not be available, or if available, might not be on terms as favorable as those in the Credit Agreement. In addition, if we cannot satisfy these financial covenants, we would be prohibited under the Credit Agreement from engaging in certain activities, such as incurring additional indebtedness, making certain payments, and acquiring or disposing of assets. Based on the information above, management believes that the presentation of EBITDA as a liquidity measure would be useful to investors and relevant to their assessment of our capacity to service, or incur, debt.

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

	Three months ended March 31,	
(dollars in thousands)	**2011**	**2010**
Reconciliation of EBITDA to Net Cash Flows Provided By Operating Activities:		
EBITDA	$ 11,932	$ 8,705
Add/(subtract):		
Interest income (expense), net	(181)	(192)
Provision for income taxes	(2,920)	(1,709)
Depreciation & amortization	(4,331)	(4,024)
Adjustments to reconcile net income to net cash flows provided by operating activities	4,483	4,263
Changes in operating assets and liabilities	4,811	(6,410)
Net cash flows provided by operating activities	$ 13,794	$ 633

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Backlog

We refer to our estimated revenue on uncompleted contracts, including the amount of revenue on contracts for which work has not begun, less the revenue we have recognized under such contracts, as "backlog." We calculate backlog differently for different types of contracts. For our fixed-price contracts, we include the full remaining portion of the contract in our calculation of backlog. A client's intention to award the Company work is not counted as backlog unless there is an actual award to perform a specific scope of work. For our unit-price, time-and-equipment, time-and-materials and cost-plus contracts, our projected revenue for a three-month period is included in the calculation of backlog, regardless of the duration of the contract, which typically exceeds such three-month period. These types of contracts are generally awarded as part of master service agreements ("MSAs") that typically have a one- to three-year duration from execution. Given the duration of our contracts and MSAs and our method of calculating backlog, our backlog at any point in time may not accurately represent the revenue that we expect to realize during any period and our backlog as of the end of a fiscal year may not be indicative of the revenue we expect to generate in the following fiscal year and should not be viewed or relied upon as a stand-alone indicator.

Certain projects that we undertake are not completed in one accounting period. Revenue on construction contracts is recorded based upon the percentage-of-completion accounting method determined by the ratio of costs incurred to date on the contracts (excluding uninstalled direct materials) to management's estimates of total contract costs. Projected losses are provided for in their entirety when identified. There can be no assurance as to the accuracy of our customers' requirements or of our estimates of existing and future needs under MSAs, or of the values of our cost or time-dependent contracts and, therefore, our current backlog may not be realized as part of our future revenues.

Subject to the foregoing discussions, the following table summarizes the amount of our backlog that we believe to be firm as of the dates shown and the amount of our current backlog that we reasonably estimate will not be recognized within the next twelve months (dollars in thousands):

	Backlog at March 31, 2011		
	Total	**Amount estimated to not be recognized within 12 months of March 31, 2011**	**Total Backlog at March 31, 2010**
T&D	$ 523,737	$ 233,476	$ 142,900
C&I	$ 80,196	$ 17,128	$ 56,600
	$ 603,933	$ 250,604	$ 199,500

Changes in backlog from period to period are primarily the result of fluctuations in the timing and revenue recognition of contracts. The increase in backlog from the first quarter of 2010 was primarily related to several large contracts that were awarded within our T&D segment late in 2010 and in the first quarter of 2011.

Project Bonding Requirements

Approximately 24.1% and 30.5% of our business by revenue, for the three-month periods ended March 31, 2011 and 2010, respectively, required surety bonds or other means of financial assurance to secure contractual performance. These bonds are typically issued at the face value of the contract awarded. If we fail to perform or pay our subcontractors or vendors, the customer may demand that the surety provide services or make payments under the bond. In such a case, we would likely be required to reimburse the surety for any expenses or outlays it incurs. To date, we have not been required to make any reimbursements to our surety for claims against the surety bonds. As of

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March 31, 2011, we had approximately $818.5 million in original face amount of surety bonds outstanding. Our estimated remaining cost to complete these bonded projects was approximately $408.8 million as of March 31, 2011. As of March 31, 2011, the total amount of bonded backlog was approximately $454.9 million, which represented approximately 75.3% of our backlog.

Consolidated Results of Operations

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

	Three months ended March 31,			
	2011		2010	
(dollars in thousands)	Amount	Percent	Amount	Percent
Contract revenues	$ 150,294	100.0%	$ 148,889	100.0%
Contract costs	128,705	85.6	133,720	89.8
Gross profit	21,589	14.4	15,169	10.2
Selling, general and administrative expenses	13,953	9.3	10,564	7.1
Amortization of intangible assets	84	0.1	84	0.1
Gain on sale of property and equipment	(71)	(0.1)	(190)	(0.2)
Income from operations	7,623	5.1	4,711	3.2
Other income (expense)				
Interest income	29		11	
Interest expense	(210)	(0.2)	(203)	(0.2)
Other, net	(22)		(30)	
Income before provision for income taxes	7,420	4.9	4,489	3.0
Income tax expense	2,920	1.9	1,709	1.1
Net income	$ 4,500	3.0%	$ 2,780	1.9%

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Revenues. Revenues increased $1.4 million, or 0.9%, to $150.3 million for the three months ended March 31, 2011 from $148.9 million for the three months ended March 31, 2010. The majority of the increase in revenues was the result of an increase in revenues from several medium-sized T&D projects (between $3.0 million and $10.0 million in contract value), which was substantially offset by a decrease in revenues from a few large C&I projects (greater than $10.0 million in contract value).

Gross profit. Gross profit increased $6.4 million, or 42.3%, to $21.6 million for the three months ended March 31, 2011 from $15.2 million for the three months ended March 31, 2010. As a percentage of overall revenues, gross margin increased to 14.4% for the three months ended March 31, 2011 from 10.2% for the three months ended March 31, 2010. The increase in gross profit as a percentage of revenues was mainly attributable to an overall increase in contract margins on a few large transmission projects (greater than $10.0 million in contract value) of approximately $5.8 million as a result of increased productivity levels, cost efficiencies, added work and effective contract management. These large projects, which generated above-normal margins in the current period, will be substantially completed in the second quarter. Gross profit also increased by approximately $1.2 million on T&D projects with contract values less than $10 million, which was mostly offset by a decrease in gross profit on C&I projects with contract values less than $10 million.

Selling, general and administrative expenses. Selling, genera