DYCOM INDUSTRIES INC
Form 10-K/A
August 01, 2006

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K/A

**(Amendment No. 1)**

(Mark One)

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

**For the fiscal year ended July 30, 2005**

**OR**

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

**For the transition period from to**

**Commission File Number 0-5423**

# Dycom Industries, Inc.

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Florida**<br>*(State of incorporation)* | **59-1277135**<br>*(I.R.S. Employer Identification No.)* |
| **11770 US Highway 1, Suite 101, Palm Beach Gardens, Florida**<br>*(Address of principal executive offices)* | **33408**<br>*(Zip Code)* |

**Registrant s telephone number, including area code**

**(561) 627-7171**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.33 1/3 per share | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

**(Title of Class)**

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.

90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Exchange Act Rule 12b-2). Yes þ No o

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

The aggregate market value of the common stock, par value $0.33 1/3 per share, held by non-affiliates of the registrant, computed by reference to the closing price of such stock on January 29, 2005 was $1,288,186,866.

There were 48,868,644 shares of common stock with a par value of $0.33 1/3 outstanding at September 6, 2005.

**DOCUMENTS INCORPORATED BY REFERENCE**

The definitive proxy statement relating to the Registrant s Annual Meeting of shareholders, to be held on November 28, 2005, is incorporated by reference in Part III to the extent described herein.

**EXPLANATORY NOTE**

Dycom Industries, Inc. (the Company ) is filing this Amendment No. 1 ( Amendment ) to its annual report on Form 10-K for the year ended July 30, 2005, filed with the Securities Exchange Commission on September 9, 2005 ( Original Filing ), to modify Part II, Item 7*, Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A )*, to add expanded disclosures related to the Company s fiscal 2005 goodwill impairment charge. As required, we are including in this Amendment the complete text of MD&A. The only changes to the text in the MD&A are as follows:

*Critical Accounting Policies and Estimates, Valuation of Goodwill and Intangible Assets*, (page 14 of the Original Filling) was amended to add expanded disclosure related to the fiscal 2005 goodwill impairment charge recorded in connection with our White Mountain Cable Construction ( WMCC ) reporting unit, including the key assumptions used in the fair value analysis.

*Results of Operations, Year Ended July 30, 2005 Compared to Year Ended July 31, 2004, Goodwill Impairment Charge* (page 19 of the Original Filing) was amended to add expanded disclosure related to the WMCC goodwill impairment charge.

Additionally, Item 15. of Part IV, *Exhibits*, of this Amendment has been revised to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as Exhibits 31.1, 31.2, 32.1, and 32.2, respectively.

As the Amendment only relates to the MD&A, the previously issued Consolidated Financial Statements and Notes thereto in the Original Filing are unchanged. No attempt has been made in this Amendment to modify or update disclosures in the Original Filing, except related to the goodwill impairment charges in the MD&A as discussed above. All information in this Amendment is as of the date of the Original Filing and does not reflect any subsequent information or events occurring after the date of the Original Filing. Information not affected by the Amendment is unchanged and reflects the disclosure made at the time of the Original Filing. Accordingly, this Amendment should be read in conjunction with the Original Filing and the Company s filings made with the Securities and Exchange Commission subsequent to the Original Filing, including any amendments to those filings.

**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

**Special Note Concerning Forward Looking Statements**

This Annual Report on Form 10-K, including the Notes to the Consolidated Financial Statements and this Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward looking statements. The words believe , expect , anticipate , intend , forecast , project , and similar expressions identify forward looking statements. Such statements may include, but may not be limited to, the anticipated outcome of contingent events, including litigation, projections of revenues, income or loss, capital expenditures, plans for future operations, growth and acquisitions, financial needs or plans and the availability of financing, and plans relating to our services including backlog, as well as assumptions relating to the foregoing. These forward looking statements are based on management s current expectations, estimates and projections. Forward-looking statements are subject to risks and uncertainties that may cause actual results in the future to differ materially from the results projected or implied in any forward-looking statements contained in this report. Such risks and uncertainties include: business and economic conditions in the telecommunications industry affecting our customers, a change in our customers financial condition, the adequacy of our insurance and other reserves and allowances for doubtful accounts, whether the carrying value of our assets may be impaired, the anticipated outcome of contingent events, including litigation, liquidity needs and the availability of financing. Such forward looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

**Overview**

We are a leading provider of specialty contracting services. These services are provided throughout the United States and include engineering, construction, maintenance and installation services to telecommunications providers, underground locating services to various utilities including telecommunications providers, and other construction and maintenance services to electric utilities and others. For the fiscal year ended July 30, 2005, specialty contracting services related to the telecommunications industry, underground utility locating, and electric and other construction and maintenance to electric utilities and others contributed approximately 74.3%, 21.6%, and 4.1%, respectively, to our total revenues.

We conduct our operations primarily through our subsidiaries. Our revenues may fluctuate as a result of changes in the capital expenditure and maintenance budgets of our customers, and changes in the general level of construction activity. The capital expenditure and maintenance budgets of our telecommunications customers may be impacted by consumer demands on telecom providers, actions of the Federal Communications Commission and the introduction of new communication technologies, while the balance of our services are primarily impacted by general economic conditions.

A significant portion of our services are covered by multi-year master service agreements, and we are currently a party to over 200 of these agreements. Master service agreements generally have the following characteristics: contract periods of one or more years, exclusivity and customer specified service requirements. Exclusivity often has a number of exceptions, including but not limited to, the ability by the customer to issue to others work orders valued above a specified dollar limit, the self-performance of the work by the customer s in house workforce if available, and the ability to use others when jointly placing facilities with another utility. In addition, master service agreements typically provide that we will furnish a specified unit of service for a specified unit price (e.g., fiber optic cable will be installed underground for a specified rate of dollars per foot). In most cases, a customer may terminate these agreements for convenience with written notice.

The remainder of our services is provided pursuant to contracts for particular jobs. Long-term contracts relate to specific projects with terms in excess of one year from the contract date. Short-term contracts generally are three to four months in duration. A portion of our contracts include retainage provisions under which 5% to 10% of the contract invoicing is withheld subject to project completion and acceptance by the customer.

The following table summarizes our revenues from long-term contracts, including multi-year master service agreements, as a percentage of total revenue:

| | % of Revenue Fiscal Year Ended | |
|---|---|---|
| | July 30, 2005 | July 31, 2004 |
| Multi-year master service agreements | 54.3% | 49.9% |
| Other long-term contracts | 34.5% | 37.1% |
| Total long-term contracts | 88.8% | 87.0% |

The percentage increase in revenue derived from long-term contracts, including multi-year master service agreements, is primarily due to agreements in place at UtiliQuest which was acquired in December 2003. Many of the UtiliQuest agreements are multi-year master service agreements which have increased the number of multi-year service agreements as a percentage of all total long-term contracts.

We recognize revenue using the units of delivery or cost-to-cost measures of the percentage of completion method of accounting. Revenues from services provided to customers are recognized when services are performed. The majority of our contracts are based on units of delivery and revenue is recognized as each unit is completed. Revenue from other contracts is recognized using the cost-to-cost measures of the percentage of completion method and is based on the ratio of contract costs incurred to date to total estimated contract costs.

We derive a significant amount of our revenue from telecommunications companies. During fiscal 2002 and into fiscal 2003, certain segments of the telecommunications industry suffered a severe downturn that resulted in certain of our customers experiencing financial difficulties. Several of our customers filed for bankruptcy protection, including Adelphia Communications Corporation ( Adelphia ) and WorldCom, Inc. ( WorldCom ). The downturn in the telecommunications industry in fiscal 2002 and 2003 adversely affected capital expenditures for infrastructure projects even among our customers that did not experience financial difficulties. Generally, these situations eased in fiscal 2004 and 2005. Although we do not believe that any of our significant customers are experiencing significant financial difficulty as of July 30, 2005, additional bankruptcies of companies in the telecommunications sector could reduce our revenues and adversely impact our liquidity. In addition, master service agreements can generally be terminated by these customers on short notice regardless of financial difficulties or other considerations.

A significant portion of our revenue comes from several large customers. The following table reflects the percentage of total revenue from customers contributing at least 2.5% of our total revenue for either fiscal 2005 or 2004:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | July 30, 2005 | July 31, 2004 | July 26, 2003 |
| Verizon | 25.1% | 3.7% | 0.5% |
| BellSouth | 16.6% | 14.0% | 12.1% |
| Comcast | 11.3% | 28.5% | 33.0% |
| Sprint | 7.5% | 10.1% | 7.6% |
| Qwest | 3.9% | 6.1% | 5.5% |
| Charter | 3.5% | 3.3% | 3.4% |
| DIRECTV | 3.2% | 3.2% | 5.6% |
| Alltel | 2.4% | 3.0% | 2.6% |
| Adelphia | 1.6% | 5.1% | 4.8% |

Cost of earned revenues includes all the direct costs of providing services under our contracts, including those for construction personnel, subcontractors, operation of capital equipment (excluding depreciation), and insurance. For the majority of our contracts, our customers provide the materials that are to be used and we

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provide the personnel, tools, and equipment to perform the installation and maintenance services. The materials supplied by our customers are not included in our revenue or costs of sales as the customer retains the financial and performance risk associated with the materials. We retain the risk, up to certain limits, for automobile liability, general liability, workers compensation, locate damage claims, and employee group health claims. Locate damage claims result from property and other damages arising in connection with our utility locating services. A change in claims experience or actuarial assumptions related to these risks could materially affect our results of operations.

General and administrative costs include all of our costs at the corporate level, as well as costs of our subsidiaries management personnel and administrative overhead. Our executive management, including senior managers of our subsidiaries, performs substantially all sales and marketing functions as part of their management responsibilities and, accordingly, we have not incurred material sales and marketing expenses.

**Acquisitions**

On September 21, 2004, we acquired certain assets and assumed certain liabilities of RJE Telecom Inc. ( RJE ) for a cash purchase price of approximately $9.8 million. RJE provides specialty contracting services primarily to telephone companies. On December 3, 2003, we acquired UtiliQuest for a cash purchase price of approximately $116.1 million. UtiliQuest is a provider of underground locating services. In connection with the acquisition of UtiliQuest, we borrowed approximately $85.0 million under our previous credit agreement. This amount was repaid during fiscal 2004. On November 25, 2003, we acquired substantially all of the assets and assumed certain of the liabilities associated with those assets of First South Utility Construction, Inc. ( First South ). First South provided specialty contracting services to telecommunications customers. Consideration consisted of approximately $50.3 million in cash, adjusted for cash we received from the settlement of an escrow agreement in fiscal 2005, and 175,840 shares of our common stock valued at approximately $4.2 million. In conjunction with the First South acquisition, we also paid approximately $9 million for excess working capital consisting primarily of accounts receivable and costs and estimated earnings in excess of billings.

As part of our growth strategy, we may acquire companies that expand, complement, or diversify our business. We regularly review opportunities and periodically engage in discussions regarding possible acquisitions. Our ability to sustain our growth and maintain our competitive position may be affected by our ability to successfully integrate any businesses acquired.

**Outlook**

We are a provider of specialty contracting services, primarily to the telecommunications industry. The telecommunications industry has undergone and continues to undergo significant changes due to governmental deregulation, advances in technology, increased competition as the telephone and cable industries converge, and growing consumer demand for enhanced and bundled services. As a result of these factors, the networks of our customers increasingly face demands for more capacity and greater reliability which in turn, increase the needs of our customers for our services.

Telecommunications network operators are increasingly relying on the deployment of fiber optic cable technology deeper into their networks and closer to consumers in order to respond to demands for capacity, reliability, and product bundles of voice, video, and high speed data services. Fiber deployments have enabled an increasing number of cable companies to begin to offer voice services in addition to their traditional video and data services. Fiber deployments are also beginning to facilitate the provisioning of video services by local telephone companies in addition to their traditional voice and high speed data services. During 2004 and 2005, several large telephone companies announced fiber to the premise and fiber to the node initiatives as a means to begin to actively compete with cable operators. These initiatives have resulted in an increase in demand for our services. This increase in demand for fiber deployments has been accompanied by the telecommunications industry s general recovery from the severe downturn which occurred during 2002 and 2003.

We believe the latest developments and trends in the telecommunications industry support our outlook for growth. Consistent with historical practice, telecommunications providers have continued to outsource a significant portion of their engineering, construction and maintenance requirements in order to reduce their investment in capital equipment, provide flexibility in workforce sizing, expand product offerings without large increases in incremental hiring and focus on those competencies they consider core to business success.

We also provide underground utility locating services to a variety of utility companies including telecommunication providers. Underground excavation is involved in a substantial portion of overall economic activity including the construction and maintenance of telephone, cable television, power and gas utility networks, the construction and maintenance of roads and highways as well as the construction of new and existing commercial and residential projects. In most if not all instances, utility line locating is required prior to underground excavation. This requirement along with the pace of overall economic activity primarily influences the demand for our utility line locating services.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, we evaluate these estimates and assumptions, including those related to revenue recognition for costs and estimated earnings in excess of billings, allowance for doubtful accounts, self-insured claims liability, valuation of goodwill and intangible assets, asset lives used in computing depreciation and amortization, including amortization of intangibles, and accounting for income taxes, contingencies and litigation. Application of these estimates and assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ materially from these estimates.

We have identified the accounting policies below as critical to the accounting for our business operations and the understanding of our results of operations because they involve making significant judgments and estimates used in the preparation of our consolidated financial statements. The impact of these policies on our operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. We have discussed the development, selection and application of our critical accounting policies with the Audit Committee of our Board of Directors, and our audit committee has reviewed our disclosure relating to our critical accounting policies in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our consolidated financial statements. The notes to our consolidated financial statements contain additional information related to our accounting policies, including the critical accounting policies described herein, and should be read in conjunction with this discussion.

*Revenue Recognition.* We recognize revenue using the units of delivery or cost-to-cost measures of the percentage of completion method of accounting. Revenues from services provided to customers are recognized when services are performed. The majority of our contracts are based on units of delivery and revenue is recognized as each unit is completed. Revenue from other contracts is recognized using cost-to-cost measures of the percentage of completion method and is based on the ratio of contract costs incurred to date to total estimated contract costs. Contract costs include the direct costs of providing services under our contracts, including those for construction personnel, subcontractors, operation of capital equipment (excluding depreciation), and insurance. Our customers generally provide the materials that are to be used for a particular contract, and we provide the personnel, tools, and equipment to perform the installation services. The materials supplied by our customers are not included in our revenue or costs of sales as the customer retains the financial and performance risk associated with the materials. The current asset Costs and estimated earnings in excess of billings represents revenues recognized in excess of amounts billed. The current liability Billings in excess of costs and estimated earnings represents billings in excess of revenues recognized.

Application of the percentage of completion method of accounting requires the use of estimates of costs to be incurred for the performance of the contract. The cost estimation process is based upon the professional knowledge and experience of our project managers and financial professionals. Factors that we consider in estimating the work to be completed and ultimate contract recovery include the availability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance and the recoverability of any claims. Changes in job performance, job conditions, estimated profitability and final contract settlements may result in revisions to costs and income and their effects are recognized in the period in which the revisions are determined. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

*Self-Insured Claims Liability.* We retain the risk, up to certain limits, for automobile liability, general liability, workers compensation, locate damage claims, and employee health claims. A liability for unpaid claims and the associated claim expenses, including incurred but not reported losses, is actuarially determined and reflected in the consolidated financial statements as accrued-self insured claims. Locate damage claims result from property and other damages arising in connection with our utility locating services. As of July 30, 2005, the liability for self insured claims was $50.8 million compared to $44.8 million at July 31, 2004. Based on past experience, we expect $28.2 million to be paid in the next 12 months.

We estimate and develop claims based on facts, circumstances and historical evidence. When loss reserves are recorded they are not discounted, even though they may not be paid until some time in the future. Factors affecting the determination of amounts to be accrued for self-insured claims include, but are not limited to, the expected cost for existing and incurred but not reported claims, the frequency of claims, the frequency of use of our health plan by participants, the payment patterns for incurred claims, the hazard level of our operations, the overall level of medical cost inflation, changes in the medical conditions of claimants, economic factors such as inflation, tort reform or other legislative changes, unfavorable jury decisions and court interpretations. The calculation of the estimated accrued liability for self-insured claims is subject to inherent uncertainty.

For losses occurring in fiscal 2005, we have retained the risk to $1.0 million on a per occurrence basis for workers compensation and for automobile liability. For general liability we have retained the risk to $250,000, except with respect to our UtiliQuest subsidiary for which we have retained the risk to $2.0 million for general liability for fiscal 2005. Within our umbrella coverage, we have retained the risk of loss for automobile liability and general liability and damage claims between $2.0 and $5.0 million, on a per occurrence basis, with an aggregate stop loss for this layer of $10.0 million for fiscal 2005. These retention amounts apply in those states in which we operate and are allowed to retain the risk. For fiscal 2005, we had an aggregate stop loss coverage for these exposures at a stated retention of approximately $30.8 million and umbrella liability coverage to a policy limit of $75.0 million.

For losses occurring in fiscal year 2006, we will retain the same risk amounts as for fiscal 2005, except that we will have an aggregate stop loss coverage for these exposures at a stated retention of approximately $40.5 million and an umbrella liability coverage policy limit of $100.0 million.

For losses under our self-insured employee health plan occurring during fiscal 2005, we have retained the risk, on an annual basis, of $200,000 per participant. For fiscal 2005, we had an aggregate stop loss coverage for this exposure at the stated retention of approximately $27.5 million.

The methods of calculating the estimated accrued liabilities for self-insured claims are subject to inherent uncertainty. If actual results significantly differ from estimates used to calculate the liability, our financial condition, results of operations, and cash flows could be materially impacted.

*Valuation of Goodwill and Intangible Assets* As of July 30, 2005, we had $194.1 million of goodwill, $4.7 million of indefinite-lived intangible assets and $28.6 million of finite-lived intangible assets, net of accumulated amortization. We account for goodwill in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. Our reporting units are tested annually in accordance with SFAS No. 142 during the fourth fiscal quarter of each year to determine whether their carrying value exceeds their fair market value. Should this be the case, the value of the goodwill or indefinite-lived intangibles may be impaired and written down. Goodwill and other indefinite-lived intangible assets are also tested for impairment on an interim basis if an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. If we determine the fair value of the goodwill or other identifiable intangible asset is less than the carrying value, an impairment loss is recognized in an amount equal to the difference. Impairment losses, if any, are reflected in operating income or loss in the consolidated statements of operations.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we review finite-lived intangible assets for impairment whenever an event occurs or circumstances change which indicates that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss is based on the fair value of the asset compared to its carrying value. If we determine the fair value of the asset is less than the carrying value, an impairment loss is incurred in an amount equal to the difference. Impairment losses, if any, are reflected in operating income or loss in the consolidated statements of operations.

We use judgment in assessing goodwill and intangible assets for impairment. Estimates of fair value are based on our projection of revenues, operating costs, and cash flows of each reporting unit considering historical and anticipated future results, general economic and market conditions as well as the impact of planned business or operational strategies. The valuations employ a combination of present value techniques to measure fair value and consider market factors. Generally, we engage third party specialists to assist us with our valuations. Changes in our judgments and projections could result in a significantly different estimate of the fair value of the reporting units and could result in an impairment of goodwill.

As a result of the purchase price allocations from our prior acquisitions and due to our decentralized structure, our goodwill is included in multiple reporting units. Due to the cyclical nature of our business, and the other factors described under Risk Factors herein, the profitability of our individual reporting units may periodically suffer from downturns in customer demand and other factors. These factors may have a relatively more pronounced impact on the individual reporting units as compared to the Company as a whole and might adversely affect the fair value of the reporting units. If material adverse conditions occur that impact our reporting units, our future determinations of fair value may not support the carrying amount of one or more of our reporting units, and the related goodwill would need to be written down to an amount considered recoverable.

As a result of our fiscal 2005 annual impairment analysis, we determined that the goodwill of our White Mountain Cable Construction ( WMCC ) reporting unit was impaired and consequently recorded a goodwill impairment charge of approximately $29.0 million. This determination was primarily the result of a change in management s expectations of long-term cash flows from reduced work levels for a significant customer, a shift in the timing of expected cash flows from another customer to later periods in our forecast which reduced the present value of the future cash flows from this customer and WMCC s operational underperformance during the fourth quarter of 2005. The combination of these factors had an adverse impact on the anticipated future cash flows of the WMCC reporting unit used in the annual impairment analysis performed during the fourth quarter of fiscal 2005.

The reduced work levels at WMCC were primarily the result of a reduction in demand from a single significant customer. This was due to the customer s decisions regarding the allocation of their capital spending away from work that management anticipated would be performed by WMCC. In performing the SFAS No. 142 impairment assessment, management determined that this shift in demand was more than temporary, consequently impacting the seven year forecast used in the Company s goodwill analysis. This change in the allocation of capital spending by the customer away from work provided by WMCC did not have an adverse impact on other subsidiaries of the Company. The historical cash flows of WMCC had been positive, but trended downward during fiscal 2005 as WMCC incurred losses. This negative trend was the result of unanticipated poor operating performance due to unforeseen job site conditions which impacted productivity, an inability to effectively secure and manage subcontractors at acceptable cost and the under absorption of general and administrative expenses. During the fourth quarter of fiscal 2005 management had expected improvements in operating performance as the level of work increased, however, as a result of the factors specified above WMCC incurred an operating loss during the fourth quarter ended July 30, 2005. As a result of these factors, management determined that WMCC would be unable to meet expected profitability measures at the existing work levels which indicated that the anticipated long-term cash flows from the business would be materially less than previously expected over the seven year cash flow period used in the SFAS No. 142 impairment analysis. Although we have made operational changes in an effort to improve the performance and profitability of WMCC and management does not expect WMCC to generate material losses in future periods, we are uncertain of the time period that the changes will take to improve the performance and the extent to which the changes may be effective.

The estimate of fair value of the WMCC reporting unit was based on our projection of revenues, operating costs, and cash flows considering historical and anticipated future results, general economic and market conditions as well as the impact of planned business and operational strategies. The valuation employed a combination of present value techniques to measure fair value and considered market factors. The key assumptions used to determine the fair value of our reporting units during the fiscal 2005 annual impairment test, including WMCC, were (a) expected cash flow periods of seven years; (b) terminal values based upon terminal growth rate of 4.0%; and (c) a discount rate of 13.0% which was based on our best estimate of the weighted average cost of capital adjusted for risks associated with the reporting units. The key assumptions used to determine the fair value of our reporting units during fiscal 2004 were (a) expected cash flow periods ranging from three to seven years; (b) terminal values based upon terminal growth rates ranging from 3.0% to 5.0%; and (c) discount rates ranging from 12%-13% which was based on our best estimate of the weighted average cost of capital adjusted for risks associated with the reporting units. Management believes the rates used are consistent with the risks inherent in our current business model and with industry discount rates. Changes in our judgments and estimates could result in a significantly different estimate of the fair value of the reporting units and could result in an impairment of goodwill. A variance in the discount rate used could have had a significant impact on the amount of goodwill impairment charges recorded. For example, a 1% change in the discount rate would have caused an increase or decrease in the WMCC goodwill impairment charges by approximately $0.6 million. Additionally, a 1% change in the discount rate would have changed the estimated fair value of our reporting units and may have caused other reporting units to incur impairment charges.

*Stock-Based Compensation.* Our stock option program is intended to attract, retain and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. As of July 30, 2005, we had five stock-based compensation plans. As discussed in Note 1 in the Notes to Consolidated Financial Statements, we accounted for stock-based employee compensation using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25. No compensation expense was recognized for employee stock options, because it was our practice to grant stock options with an exercise price equal to the market price of the underlying common stock on the date of grant. The fair value of options at grant date was estimated using the Black-Scholes multiple option model. Changes in any of the assumptions used in this model for fiscal 2005 (expected life of 6.0 years, a weighted-average risk free interest rate of 3.6%, weighted average volatility of 58.7% and no expected dividends), would change the weighted average per share fair value of $19.71. The assumptions we used are based upon our historical experience, however future results could differ from these assumptions.

On July 21, 2005, our Compensation Committee approved the accelerated vesting of all unvested stock options granted under the 1998 Incentive Stock Option Plan and the 2003 Long-term Incentive Plan to employees and officers having per share exercise prices equal to or greater than $23.92 (the closing market price on July 21, 2005). Each of these options became fully vested. Approximately 1.4 million options to purchase shares became exercisable immediately as a result of the vesting acceleration. In the case of officers at or above the level of Senior Vice President, the Compensation Committee imposed a holding period that will require the optionees to refrain from selling common stock acquired upon the exercise of these options (other than shares needed to cover the exercise price and satisfying withholding taxes) until the date on which the exercise would have been permitted under the option s original vesting terms. The primary purpose of the accelerated vesting was to eliminate future compensation expense we would have otherwise recognized in our consolidated statements of operations with respect to these accelerated options upon the adoption SFAS No. 123(R), Share-Based Payment (see Note 1, Accounting for Stock-Based Compensation and

Note 1, Recently Issued Accounting Pronouncements). The acceleration of the vesting of these options did not result in a charge based on accounting principles generally accepted in the United States. The acceleration resulted in the recognition of an additional $20.6 million pre-tax expense included in the pro forma disclosures of stock based compensation in Note 1 in the Notes to Consolidated Financial Statements and the exclusion of such amounts from compensation expense in future years. If we had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation, our net earnings for the fiscal year ended July 30, 2005 would have been $1.4 million or $0.03 per diluted share, which includes the compensation expense related to the accelerated options. Based on the remaining unvested options at July 30, 2005, we expect to incur non-cash compensation expense of approximately $2.0 million during fiscal 2006.

*Accounting for Income Taxes.* We account 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 basis of assets and liabilities. Developing our provision for income taxes requires significant judgment regarding the determination of deferred tax assets and liabilities and, if necessary, any valuation allowances that may be required for deferred tax assets. We have not recorded any valuation allowances as of July 30, 2005 because management believes that future taxable income will, more likely than not, be sufficient to realize the benefits of those assets as the temporary basis differences reverse over time. Our judgments are subject to audit by various taxing authorities. While we believe that we have provided adequately for our income tax liabilities in the consolidated financial statements, adverse determinations by taxing authorities could have a material adverse effect on our consolidated financial condition, results of operations, and cash flows.

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Management analyzes the collectability of accounts receivable balances each period. This review considers the aging of account balances, historical bad debt experience, changes in customer creditworthiness, current economic trends, customer payment activity and other relevant factors. Should any of these factors change, the estimate made by management may also change, which could affect the level of our future provision for doubtful accounts. We record an increase in the allowance for doubtful accounts when it is probable that a receivable is not collectable and the loss can be reasonably estimated. We believe that none of our significant customers are experiencing significant financial difficulty as of July 30, 2005. Any increase in the allowance account has a corresponding negative effect on our results of operations.

*Contingencies and Litigation.* In the ordinary course of our business, we are involved in certain legal proceedings. SFAS No. 5, *Accounting for Contingencies,* requires that an estimated loss from a loss contingency should be accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. If only a range of probable loss can be determined, we accrue for our best estimate within the range for the contingency. In those cases where none of the estimates within the range is better than another, we accrue for the amount representing the low end of the range in accordance with SFAS No. 5. As additional information becomes available, we reassess the potential liability related to our pending litigation and revise our estimates. Revisions of our estimates of the potential liability could materially impact our results of operations. Additionally, if the final outcome of such litigation and contingencies differs adversely from that currently expected, it would result in a charge to earnings when determined.

The federal employment tax returns for two of our subsidiaries have been audited by the Internal Revenue Service ( IRS ). As a result of the audit, we received a proposed assessment from the IRS in March 2004. At issue, according to the examination reports, are the taxpayers characterization of certain employee reimbursements for the calendar years 2000 and 2001. We reached an agreed assessment with the IRS regarding one of the two subsidiaries. The amount of the agreed assessment, which was paid during fiscal 2005, was recorded against the accrual we established in fiscal 2004. Subsequent to this agreement, $7.4 million of the proposed assessment is still at issue. We continue to disagree with the amount of the proposed assessment with respect to the other subsidiary and are pursuing an administrative appeal for this matter which we intend to vigorously defend. We believe we have a number of legal defenses available that may substantially reduce the proposed assessment and have therefore not recorded any significant liability with respect to the remaining assessment.

**Results of Operations**

The following table sets forth, as a percentage of revenues earned, certain items in our consolidated statements of operations for the periods indicated:

| | Fiscal Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 30, 2005 | | July 31, 2004 | | July 26, 2003 | |
| | (dollars in millions) | | | | | |
| Revenues | $986.6 | 100.0% | $872.7 | 100.0% | $618.2 | 100.0% |
| Expenses: | | | | | | |
| Cost of earned revenue, excluding depreciation | 785.6 | 79.6 | 673.6 | 77.2 | 482.9 | 78.1 |
| General and administrative | 79.0 | 8.0 | 74.6 | 8.5 | 68.8 | 11.1 |
| Bad debt expense | 0.8 | 0.1 | 0.8 | 0.1 | 1.3 | 0.2 |
| Depreciation and amortization | 46.6 | 4.7 | 42.1 | 4.8 | 39.1 | 6.3 |
| Goodwill impairment charge | 29.0 | 2.9 | | | | |
| Total | 940.9 | 95.4 | 791.1 | 90.6 | 592.1 | 95.7 |
| Gain on sale of accounts receivable | | | 11.4 | 1.3 | | |
| Interest income (expense), net | 0.9 | 0.1 | (0.2) | (0.1) | 1.3 | 0.2 |
| Other income, net | 12.0 | 1.2 | 4.3 | 0.5 | 3.0 | 0.5 |
| Income before income taxes | 58.6 | 5.9 | 97.1 | 11.1 | 30.4 | 5.0 |
| Provision for income taxes | 34.3 | 3.5 | 38.5 | 4.4 | 13.3 | 2.2 |
| Net income | $ 24.3 | 2.5% | $ 58.6 | 6.7% | $ 17.1 | 2.8% |

**Year Ended July 30, 2005 Compared to Year Ended July 31, 2004**

We use a fiscal year ending on the last Saturday in July. Fiscal 2005 consisted of 52 weeks, fiscal 2004 consisted of 53 weeks, and fiscal 2003 consisted of 52 weeks.

*Revenues.* The following table presents information regarding total revenues by type of customer for the fiscal years ended July 30, 2005 and July 31, 2004:

| | Fiscal Year Ended | | | | | |
|---|---|---|---|---|---|---|
| | July 30, 2005 | | July 31, 2004 | | | |
| | Revenue | % of Total | Revenue | % of Total | Increase | % Increase |
| | (dollars in millions) | | | | | |
| Telecommunications | $733.0 | 74.3% | $680.1 | 78.0% | $ 52.9 | 7.8% |
| Utility line locating | 213.2 | 21.6% | 158.0 | 18.1% | 55.2 | 34.9% |
| Electric utilities and other customers | 40.5 | 4.1% | 34.6 | 3.9% | 5.9 | 17.0% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total contract revenues | $986.6 | 100.0% | $872.7 | 100.0% | $113.9 | 13.1% |

Revenues increased $113.9 million, or 13.1% in fiscal 2005 as compared to fiscal 2004. Of this increase, $52.9 million was attributable to an increase in demand for specialty contracting services provided to telecommunications companies, an increase of $55.2 million in underground utility locating services revenues and an increase of $5.9 million attributable to electric utilities and other construction and maintenance services revenues. RJE and First South, acquired in September 2004 and November 2003, respectively, contributed $90.4 million and $30.6 million of revenues from telecommunications services during fiscal 2005 and fiscal 2004, respectively. UtiliQuest, acquired in December 2003, contributed $146.9 million and $93.0 million of revenues from underground utility locating services during fiscal 2005 and fiscal 2004, respectively. The following table presents revenue by type of customer excluding the amounts attributed to acquisitions:

| | Fiscal Year Ended | | | |
|---|---|---|---|---|
| | July 30, 2005 | July 31, 2004 | Increase | % Increase (Decrease) |
| | | (dollars in millions) | | |
| Telecommunications | $642.6 | $649.5 | $ (7.0) | (1.1)% |
| Utility line locating | 66.3 | 65.0 | 1.3 | 2.1% |
| Electric utilities and other customers | 40.5 | 34.6 | 5.9 | 17.0% |
| | 749.3 | 749.1 | 0.3 | 0.0% |
| Revenues from businesses acquired in fiscal 2005 and fiscal 2004 | 237.3 | 123.6 | 113.7 | 91.9% |
| Total contract revenues | $986.6 | $872.7 | $113.9 | 13.1% |

Excluding revenue from RJE and First South for each fiscal period, revenues from telecommunications services for fiscal 2005 were $642.6 million compared to $649.5 million for fiscal 2004, a decrease of 1.1%. This decrease in telecommunications service revenues was primarily attributable to revenues from two customers that are completing upgrade projects to their networks and a decline in revenue from a construction and maintenance contract with a significant customer. The decrease was offset in part by revenues from one of our significant customers engaged in a fiber deployment project, and general increases in construction activities for other telecommunications customers.

Excluding the revenue of UtiliQuest for each fiscal period, revenues from underground utility locating services for fiscal 2005 were $66.3 million compared to $65.0 million for fiscal 2004, an increase of 2.1%. This increase is primarily the result of additional work performed for existing customers. The increase was impacted by reduced demand during the first quarter of fiscal 2005 in the southern United States due to poor weather conditions.

Our total revenues from electric utilities and other construction and maintenance services increased $5.9 million, or 17.0% for fiscal 2005 as compared to fiscal 2004. The increase was primarily attributable to electric maintenance contracts that were in the start-up phase in fiscal 2004. This increase was offset in part by the completion of a customer contract in the Southeastern United States during fiscal 2005.

*Cost of Earned Revenues.* Costs of earned revenues increased $112.1 million to $785.6 million for fiscal 2005 from $673.6 million for fiscal 2004. The increase in cost of earned revenues was primarily the result of increased levels of operations during the period. The primary components of this dollar increase were direct labor, subcontractor costs, direct materials, equipment and other direct costs which increased $48.3 million, $36.4 million, $9.8 million and $17.5 million, respectively, due to higher levels of operations during fiscal 2005. Labor and labor related costs, including subcontractor costs, as a percentage of cost of earned revenues remained constant at 77% in fiscal 2005 and fiscal 2004. As a percentage of revenues, costs of earned revenues increased 2.4% for fiscal 2005 as compared to fiscal 2004. Included in cost of earned revenues for fiscal 2004 was a $2.3 million charge recorded to payroll tax expense in connection with a federal employment tax audit. Excluding this charge, costs of earned revenues as a percentage of revenues increased 2.7% for fiscal 2005 as compared to fiscal 2004. This change included increases of 1.8% for direct labor and 0.5% for subcontractor costs. These increases were in part the result of higher utility locating services as a percentage of total revenue which generally has higher labor costs as a percentage of cost of earned revenue. We also incurred difficult weather conditions during the first quarter of fiscal 2005, additional costs associated with the ramp-up of activities for a fiber deployment project of a significant customer, and additional costs associated with the demobilization activities for a significant customer that is completing an upgrade project to its broadband network.

*General and Administrative Expenses.* General and administrative expenses increased $4.4 million to $79.0 million for fiscal 2005 from $74.6 million for fiscal 2004. General and administrative expenses decreased as a percentage of revenues to 8.0% for fiscal 2005 from 8.6% for fiscal 2004. The increase in general and administrative expenses was primarily a result of increased operational activity and increased professional fees related to our Sarbanes-Oxley compliance efforts. Fiscal 2004 includes a charge of approximately $1.2 million associated with a legal judgment and related expenses that resulted from a contract dispute that arose from the pre-acquisition operations of one of our subsidiaries. The percentage decrease in general and administrative expenses was primarily due to the relatively fixed nature of the expenses in relation to the higher revenues during fiscal 2005 compared to fiscal 2004.

*Bad Debt Expense.* Bad debt expense was $0.8 million in both fiscal 2005 and fiscal 2004.

*Depreciation and Amortization.* Depreciation and amortization increased $4.5 million to $46.6 million in fiscal 2005 as compared to $42.1 million in fiscal 2004, and decreased as a percentage of revenues to 4.7% from 4.8%. The dollar increase was primarily due to increased depreciation and amortization from property and equipment and intangible assets related to the fiscal 2005 acquisition of RJE and a full year of depreciation and amortization for the fiscal year 2004 acquisitions of UtiliQuest and First South, as well as increased levels of capital expenditures during the second half of fiscal 2004 and during fiscal 2005.

*Goodwill impairment charge.* During 2005, as a result of our fiscal 2005 annual impairment analysis, we determined that the goodwill of our White Mountain Cable Construction ( WMCC ) reporting unit was impaired and consequently recorded a goodwill impairment charge of approximately $29.0 million. This determination was primarily the result of a change in management s expectations of long-term cash flows from reduced work levels for a significant customer, a shift in the timing of expected cash flows from another customer to later periods in our forecast which reduced the present value of the future cash flows from this customer and WMCC s operational underperformance during the fourth quarter of 2005. The combination of these factors had an adverse impact on the anticipated future cash flows of the WMCC reporting unit used in the annual impairment analysis performed during the fourth quarter of fiscal 2005.

The reduced work levels at WMCC were primarily the result of a reduction in demand from a single significant customer. This was due to the customer s decisions regarding the allocation of their capital spending away from work that management anticipated would be performed by WMCC. In performing the SFAS No. 142 impairment assessment, management determined that this shift in demand was more than temporary, consequently impacting the seven year forecast used in the Company s goodwill analysis. This change in the allocation of capital spending by the customer away from work provided by WMCC did not have an adverse impact on other subsidiaries of the Company. The historical cash flows of WMCC had been positive, but trended downward during fiscal 2005 as WMCC incurred losses. This negative trend was the result of unanticipated poor operating performance due to unforeseen job site conditions which impacted productivity, an inability to effectively secure and manage subcontractors at acceptable cost and the under absorption of general and administrative expenses. During the fourth quarter of fiscal 2005 management had expected improvements in operating performance as the level of work increased, however, as a result of the factors specified above WMCC incurred an operating loss during the fourth quarter ended July 30, 2005. As a result of these factors, management determined that WMCC would be unable to meet expected profitability measures at the existing work levels which indicated that the anticipated long-term cash flows from the business would be materially less than previously expected over the seven year cash flow period used in the SFAS No. 142 impairment analysis. Although we have made operational changes in an effort to improve the performance and profitability of WMCC and management does not expect WMCC to generate material losses in future periods, we are uncertain of the time period that the changes will take to improve the performance and the extent to which the changes may be effective.

*Gain on Sale of Accounts Receivable.* In fiscal 2004, we sold Adelphia accounts receivable and recorded an $11.4 million gain on the sale. Those receivables had a book value of approximately $21.6 million, reflecting a write-down of $19.1 million in fiscal 2002 relating to the bankruptcy of Adelphia.

*Interest Income.* Interest income increased to $1.3 million for fiscal 2005 as compared to $0.8 million for fiscal 2004. The increase in interest income primarily reflects higher interest rates compared to those in the prior period, partially offset by lower levels of cash and cash equivalents in fiscal 2005.

*Interest Expense.* Interest expense decreased by $0.6 million to $0.4 million for fiscal 2005 compared to $1.0 million for fiscal 2004. The decrease was due to prior year borrowings in connection with the UtiliQuest acquisition which were repaid during the third quarter of fiscal 2004 and the pay down of capital lease obligations.

*Other Income, net.* Other income, which primarily includes net gains on the sale of idle assets, increased $7.7 million to $12.0 million for fiscal 2005 compared to $4.3 million for fiscal 2004. The increase was a combination of greater numbers of assets sold during the current fiscal year, as well as improved pricing for those assets.

*Income Taxes.* The following table presents our income tax expense and effective income tax rate for fiscal 2005 and fiscal 2004:

| | **Fiscal Year Ended** | |
|---|---|---|
| | **July 30, 2005** | **July 31, 2004** |
| | **(dollars in millions)** | |
| Income taxes | $34.3 | $38.5 |
| Effective income tax rate | 58.5% | 39.7% |

Our effective income tax rate increased 19.3% as a result of the non-cash goodwill impairment charge of $29.0 million in fiscal 2005 (see Note 7 in the Notes to Consolidated Financial Statements) which was a non deductible item for income tax purposes. The remaining change in our effective income tax rate was attributable to fluctuations in non-deductible and non taxable items for tax purposes in relation to our pre- tax income and fluctuations in state apportionment rates.

*Net income.* Net income was $24.3 million in fiscal 2005 as compared to a $58.6 million in fiscal 2004.

**Year Ended Compared July 31, 2004 Compared to Year Ended July 26, 2003**

*Revenues.* Revenues increased $254.5 million, or 41.2%, to $872.7 million in fiscal 2004 from $618.2 million in fiscal 2003. Of this increase, $142.4 million was attributable to an increase in demand for specialty contracting services provided to telecommunications companies, an increase of $102.3 million in underground utility locating services revenues and an increase of $9.8 million attributable to electric utilities and other construction and maintenance services revenues. UtiliQuest, acquired in December 2003, contributed $93.0 million of underground utility locating service revenues during fiscal 2004. First South, acquired in November 2003, contributed $30.6 million of revenues during fiscal 2004 in telecommunication services revenue. Excluding revenues from UtiliQuest and First South our total revenues for fiscal 2004 would have been $749.1 million compared to $618.2 million for fiscal 2003, an increase of 21.2%. Revenue also increased due to 53 weeks of results included in fiscal 2004 compared to 52 weeks of results in fiscal 2003.

During fiscal 2004, we recognized $680.1 million of revenues, or 78.0% of our total revenues, from telecommunications services as compared to $537.7 million, or 87.0%, for fiscal 2003. First South contributed $30.6 million of revenues from telecommunications services for fiscal 2004. Excluding revenue from First South, revenues from telecommunications services for fiscal 2004 would have been $649.5 million compared to $537.7 million for fiscal 2003, an increase of $111.8 million, or 20.8%. The increase in our telecommunications service revenues, excluding the impact of First South, was attributable to a general increase in contract activity from a broad range of our customers as well as revenues from one of our significant customers engaged in a major upgrade project, the impact of a major new construction and maintenance contract with a significant customer and the commencement of a significant upgrade project with a telephone company.

We recognized revenues of $158.0 million, or 18.1% of our total revenues, from underground utility locating services for fiscal 2004 as compared to $55.7 million, or 9.0%, for fiscal 2003. UtiliQuest contributed $93.0 million of revenue for underground utility locating services for fiscal 2004. Excluding revenue from UtiliQuest for underground utility locating services revenues for fiscal 2004 would have been $65.0 million compared to $55.7 million for fiscal 2003, an increase of $9.3 million, or 16.7%. This increase was primarily the result of receiving a new contract award in the Southeastern United States from an existing customer.

We recognized revenues of $34.6 million, or 3.9% of our total revenues, from electric utilities and other construction and maintenance services for fiscal 2004, as compared to $24.8 million or 4.0% for fiscal 2003. This represents an increase of $9.8 million, or 39.5%, from fiscal 2003 and was primarily related to revenues from a new electrical maintenance master service agreement entered into with a customer during fiscal 2004.

Revenues from multi-year master service agreements and other long-term agreements represented 87.0% of total revenues in fiscal 2004 as compared to 81.4% in fiscal 2003. Revenues from multi-year master services agreements represented 49.9% of total revenues in fiscal 2004 as compared to 44.3% in fiscal 2003. The increase was primarily due to agreements in place at UtiliQuest which we acquired in December 2003.

*Cost of Earned Revenues.* Costs of earned revenues increased $190.7 million to $673.6 million for fiscal 2004 from $482.9 million for fiscal 2003 and decreased 0.9% as a percentage of revenues to 77.2% from 78.1%. The primary components of this dollar increase were subcontractor costs, direct labor and other direct costs which increased $81.0, $50.1 and $42.6 million, respectively, due to higher levels of operations during fiscal 2004. As a percentage of revenues, cost of earned revenue decreased 1.1% due to improving claims experience under our self insurance program for general liability claims and 2.0% due to reduced costs incurred for direct materials in proportion to the increased level of operations. These decreases were partially offset by an approximate 1.9% increase in subcontractor labor cost which rose on a percentage basis in response to the increased work demand and the shift in the business mix toward operating units that utilize more subcontract labor. In addition, equipment costs rose by approximately 0.4% as a percentage of revenues primarily due to increased equipment costs related to the increase in utility locating operations. Other direct costs increased in dollars, but were approximately flat on a percentage of revenue basis, primarily driven by a $29.9 million increase in payroll and related payroll tax costs related to earned revenue, which included costs of approximately $2.3 million related to the settlement of an IRS assessment. Cost of earned revenues also increased due to 53 weeks of results included in fiscal 2004 compared to 52 weeks of results in fiscal 2003.

*General and Administrative Expenses.* General and administrative expenses increased $5.8 million to $74.6 million in fiscal 2004 from $68.8 million in fiscal 2003. The increase in general and administrative expenses for fiscal 2004 as compared to fiscal 2003, was primarily attributable to increased overhead related to the UtiliQuest and First South acquisitions and due to the impact of 53 weeks of results included in fiscal 2004 compared to 52 weeks in fiscal 2003. Additionally, during 2004 we incurred a charge of approximately $1.2 million associated with a legal judgment and related expenses that resulted from a contract dispute that arose from the pre-acquisition operations of one of our subsidiaries.

*Bad Debt Expense.* Bad debt expense decreased $0.5 million to $0.8 million in fiscal 2004 from $1.3 million in fiscal 2003. This decrease is primarily attributable to the recovery of previously written off accounts receivable of $0.9 million partially offset by fiscal 2004 bad debt experience.

*Depreciation and Amortization.* Depreciation and amortization increased to $42.1 million for fiscal 2004, from $39.1 million for fiscal 2003, and as a percentage of revenues decreased to 4.8% from 6.3%. The dollar amount increase was primarily due to increased amortization from intangible assets related to fiscal 2004 acquisitions of UtiliQuest and First South.

*Gain on Sale of Accounts Receivable.* At July 26, 2003, we had pre-petition outstanding receivables from Adelphia of approximately $21.6 million after a write-down of $19.1 million. In fiscal 2004, we sold the Adelphia accounts receivable and recorded an $11.4 million gain on the sale.

*Interest Income, Net.* Interest income, net, decreased $1.5 million to $(0.2) million in fiscal 2004 from $1.3 million in fiscal 2003. This decrease was primarily due to a decrease in cash and cash equivalents as a result of the purchase of UtiliQuest and First South. In addition, we incurred interest expense in fiscal 2004 associated with notes and capital leases that were acquired in the UtiliQuest acquisition.

*Other Income, Net.* Other income, net increased $1.3 million to $4.3 million for the year ended July 31, 2004 from $3.0 million for the year ended July 26, 2003. The increase for the year ended July 31, 2004 is primarily due to gains from the sale of fixed assets.

*Income Taxes.* The provision for income taxes was $38.5 million in fiscal 2004 as compared to $13.3 million in fiscal 2003. Our effective tax rate was 39.7% for fiscal 2004 as compared to 43.7% for fiscal 2003. The decrease in our effective tax rate was attributable to the mix of operating results from our subsidiaries and the impact that had on our state tax rates. Additionally, the impact of lower pre- tax income combined with permanent nondeductible expense items for tax purposes resulted in a higher effective tax rate for the year ended July 26, 2003.

*Net income.* Net income was $58.6 million in fiscal 2004 as compared to a $17.1 million in fiscal 2003.

**Liquidity and Capital Resources**

*Capital requirements.* We primarily use capital to purchase equipment to support our contractual commitments to customers and to maintain sufficient working capital. Our working capital needs are influenced by the level of operations during the period and generally increase with higher levels of revenues. Additionally, our working capital requirements are influenced by the timing of the collection of balances outstanding from our customers for work previously performed. Our sources of cash have historically been operating activities, equity offerings, bank borrowings, and proceeds from the sale of idle and surplus equipment and real property. To the extent we seek to grow by acquisitions that involve consideration other than our stock, our capital requirements may increase.

We expect capital expenditures, net of disposals, to range from $30.0 million to $35.0 million for fiscal 2006. Our level of capital expenditures can vary depending on the expected timing of contract performance, overall economic growth, customer demand for our services and the replacement cycle we select for our equipment. We intend to fund these expenditures primarily from operating cash flows, availability under our Credit Agreement and cash on hand.

Cash and cash equivalents totaled $83.1 million at July 30, 2005 compared to $31.4 million at July 31, 2004.

| | Fiscal Year Ended | | |
|---|---|---|---|
| | **July 30, 2005** | **July 31, 2004** | **July 26, 2003** |
| | | **(dollars in millions)** | |
| Net cash flows: | | | |
| Provided by operating activities | $ 87.4 | $ 124.2 | $25.0 |
| (Used in) provided by investing activities | $(34.0) | $(168.8) | $ 5.1 |
| (Used in) provided by financing activities | $ (1.8) | $ 1.3 | $ 1.7 |

*Cash from operating activities.* During fiscal 2005, net cash provided from operating activities of $87.4 million was comprised primarily of net income, adjusted for the gain on disposal of assets and non-cash items. Non-cash items during fiscal 2005 primarily included depreciation, amortization, non-cash compensation, deferred income taxes, gain on disposal of assets, and a $29.0 million goodwill impairment charge. Changes in working capital items during fiscal year 2005 used $9.4 million of operating cash flow and consisted of increases in accounts receivable and costs and estimated earnings in excess of billings of $25.9 million and $3.3 million, respectively, and an increase in other current assets and other assets, net, of $4.9 million. The increase in accounts receivable and costs and estimated earnings in excess of billings at the end of fiscal 2005 was primarily due to a change in our mix of customers to those with slower payment patterns. These cash flow decreases were partially offset by a net increase in income taxes of $15.1 million due to the timing of payments, an increase in accounts payable of $2.8 million attributable to the timing of receipt and payment of invoices, and an increase in accrued self-insured claims and other liabilities of $6.7 million attributable to increased operating levels. Based on fourth quarter revenues, days sales outstanding was 58.4 days as of July 30, 2005 compared to 49.8 days at July 31, 2004, for accounts receivable, net. Based on fourth quarter revenues, days sales outstanding was 23.6 days as of July 30, 2005 compared to 21.8 days at July 31, 2004, for costs and estimated earnings in excess of billings, net.

For fiscal 2004, net cash provided from operating activities of $124.2 million was comprised primarily of net income, adjusted for the after tax gain on the sale of long-term receivables of $11.4 million and other non-cash items consisting of depreciation, amortization and deferred taxes. Changes in working capital items during fiscal year 2004 provided $33.2 million of operating cash flow. Included in working capital changes were proceeds of $34.2 million ($29.6 million net of tax) from the sale of $21.6 million of Adelphia accounts receivables. The Adelphia accounts receivable were classified as non-current and consisted of pre-petition trade receivables due from Adelphia. Working capital changes in fiscal 2004 also included decreases in accounts receivable of $12.0 million which were offset by increases in costs and estimated earnings in excess of billings, net, of $17.9 million as work in progress increased in proportion to our revenue increase. Accounts payable increased $8.4 million and accrued self-insured claims and other liabilities increased by $4.3 million related to the increases in revenue activity and the related cost of earned revenue, combined with the volume increases due to the fiscal 2004 acquisitions of UtiliQuest and First South. These increases were offset by the decrease of income taxes payable of $9.0 million from the timing of payments in fiscal 2004. Based on fourth quarter revenues, days sales outstanding was 49.8 days as of July 31, 2004 compared to 60.7 days at July 26, 2003, for current accounts receivable, net. Based on fourth quarter revenues, days sales outstanding was 21.8 days for fiscal 2004 compared to 17.3 days for fiscal 2003, for costs and estimated earnings in excess of billings, net.

For fiscal 2003, net cash provided from operating activities of $25.0 million was primarily comprised of net income, adjusted for non-cash items including depreciation, amortization, deferred income taxes and provision for bad debts. Changes in working capital items during fiscal 2003 used $36.4 million of operating cash flow during the year ended July 26, 2003. Accounts receivable increased by $36.8 million primarily due to an increase in the mix of customers with longer payment terms. In addition to the increase in accounts receivable, the changes in working capital included an increase in other assets of $3.1 million, primarily as a result of a payment recorded as a prepaid discount made to a customer related to a long-term contract and a decrease in accounts payable of $3.9 million. These changes were offset by a $1.4 million increase in accrued insurance and other liabilities, and a $5.7 million increase in income taxes payable.

*Cash from investing activities.* For fiscal 2005, net cash used in investing activities of $34.0 million primarily related to capital expenditures of $64.5 million offset in part by $16.2 million in proceeds from the sale of idle assets, and a $2.9 million increase in restricted cash. Net proceeds from the sale and purchase of short-term investments contributed $20.0 million for fiscal 2005. During fiscal 2005, we paid $9.8 million for the acquisition of RJE and separately received escrowed funds in connection with the First South acquisition.

For fiscal 2004, net cash used in investing activities of $168.8 million primarily related the First South and UtiliQuest acquisitions, which comprised acquisition expenditures of $175.2 million. Additionally, we had capital expenditures of $35.9 million offset in part offset by $7.2 million in proceeds from the sale of idle assets. Net proceeds from the sale and purchase of short-term investments contributed $35.1 million for fiscal 2004.

For fiscal 2003, net cash provided by investing activities of $5.1 million primarily related to proceeds from the sale and purchase of short-term investments of $18.0 million and changes in restricted cash of $0.3 million. Additionally, for fiscal 2003 we had capital expenditures of $19.4 million, offset by proceeds from the sale of assets of $6.2 million.

*Cash from financing activities.* For fiscal 2005, net cash used in financing activities of $1.8 million consisted of principal payments of approximately $4.3 million on capital leases and the payment of $1.4 million in debt issuance costs related to our bank credit facility, offset in part by proceeds from the exercise of stock options of $4.0 million.

For fiscal 2004, net cash provided by financing activities of $1.3 million consisted of principal payments of approximately $3.4 million on capital leases offset by proceeds from the exercise of stock options of $4.6 million. Additionally, during fiscal 2004 we borrowed $85.0 million under our credit agreement in connection with the UtiliQuest acquisition and repaid the borrowings during the third quarter of fiscal 2004.

For fiscal 2003, net cash provided in financing activities of $1.7 million primarily consisting of proceeds from the exercise of stock options.

During the second quarter of fiscal 2005 we entered into a new five-year $300 million revolving unsecured Credit Agreement (the Credit Agreement ) with a syndicate of banks that replaced our prior credit agreement. The Credit Agreement provides us with a commitment of $300 million for a five-year period expiring on December 21, 2009, and includes a $100 million sublimit for the issuance of letters of credit. As of July 30, 2005, we had $37.3 million of outstanding letters of credit issued under the Credit Agreement. The outstanding letters of credit are all issued to insurance companies as part of our self-insurance program. At July 30, 2005 we had no other borrowings under our Credit Agreement.

The Credit Agreement requires that we maintain certain financial covenants and imposes certain conditions including restricting our ability to encumber assets or incur certain types of indebtedness. We must maintain a leverage ratio of not greater than 2.75:1.00 and maintain an interest coverage ratio of not less than 2.75:1.00, as measured at the end of each fiscal quarter. We must also maintain consolidated tangible net worth of not less than $200 million plus the sum of (i) 50% of consolidated net income (if positive) from December 21, 2004 to the date of computation and (ii) 75% of the equity issuances made from December 21, 2004 to the date of computation. At July 30, 2005, we were in compliance with all financial covenants and conditions under the Credit Agreement.

At our option, loans under the Credit Agreement bear interest, at either the bank s Base Rate or LIBOR, plus a spread. This spread is predicated upon our current leverage ratio. The bank s Base Rate is the greater of the lead bank s prime rate or the federal funds rate plus 0.50%. Currently, the rate of interest applicable to our borrowings would be at the bank s Base Rate or LIBOR plus a spread of 1.0%. We deferred approximately $1.7 million of fees in fiscal 2005 related to the Credit Agreement, which are being amortized over its five year term. Additionally, we are required to pay a quarterly facility fee, at rates that range from 0.200% to 0.375% of the unutilized commitments depending on our leverage ratio. However, in the event we are utilizing less than one-third of the facility the fee will be .375% of the unutilized commitments. Obligations under the agreement are guaranteed by certain of our material subsidiaries.

Certain subsidiaries have outstanding obligations under real estate leases and equipment and vehicle financing arrangements. The obligations are payable in monthly installments, expiring at various dates through November 2023.

***Contractual Arrangements***

The following tables set forth our contractual commitments for each of our fiscal years through 2010 and thereafter, including related party leases, as of July 30, 2005:

| | Notes and Loans Payable | Capital Leases | Operating Leases | Employment Agreements | Total |
|---|---|---|---|---|---|
| | | | (dollars in thousands) | | |
| 2006 | $ 219 | $2,796 | $ 6,180 | $3,002 | $12,197 |
| 2007 | 3,676 | 535 | 4,239 | 1,724 | 10,174 |
| 2008 | | | 2,603 | 1,320 | 3,923 |
| 2009 | | | 1,593 | 410 | 2,003 |
| 2010 | | | 921 | | 921 |
| Thereafter | | | 2,863 | | 2,863 |
| Total | $3,895 | $3,331 | $18,399 | $6,456 | $32,081 |

*Related party transactions.* We lease a portion of our administrative offices from officers of our subsidiaries or entities related to officers of subsidiaries. The total expense under these arrangements for fiscal 2005 and fiscal 2004 was $1.3 million and $1.5 million, respectively. The future minimum lease commitments under these arrangements during each fiscal year through fiscal 2010 and thereafter are:

| | (dollars in thousands) |
|---|---|
| 2006 | $1,155 |
| 2007 | 1,121 |
| 2008 | 1,009 |
| 2009 | 490 |
| 2010 | 130 |
| Thereafter | 477 |
| Total | $4,382 |

*Sufficiency of Capital Resources.* We believe that our capital resources, together with existing cash balances, are sufficient to meet our financial obligations, including lease commitments, and to support our normal replacement of equipment at our current level of business for at least the next twelve months. Our future operating results and cash flows may be affected by a number of factors including our success in bidding on future contracts and our ability to manage controllable costs effectively.

*Backlog.* Our backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts and the estimated value of future services that we expect to provide under long-term requirements contracts, including master service agreements. In many instances our customers are not contractually committed to specific volumes of services under a contract. However, the customer is obligated once the services are requested by the customer and provided by us. Many of our contracts are multi-year agreements, and we include in our backlog the amount of services projected to be performed over the terms of the contracts based on our historical relationships with customers and our experience in procurements of this nature. For certain recently initiated multi-year projects relating to fiber deployments for one of our significant customers, we have included in backlog only those amounts relating to calendar year 2005. We have taken this

approach with respect to these fiber deployment projects because, when initially installed, they are not required for the day-to-day provision of services by our customer. Consequently, these programs have generally been subject to more uncertainty, as compared to those of our other customers, with regards to budgets and activity levels. Our estimates of a customer s requirements during a particular future period may not be accurate at any point in time.

Our backlog at July 30, 2005 and July 31, 2004 was $1.1 billion and $1.2 billion, respectively. We expect to complete approximately 48.8% of our current backlog during the next twelve months.

**Seasonality and Quarterly Fluctuations**

Our revenues are affected by seasonality. Most of our work is performed outdoors and as a result, our results of operations are impacted by extended periods of inclement weather. Generally, inclement weather occurs during the winter season which falls during our second and third quarters of the fiscal year. In addition, a disproportionate percentage of total holidays fall within our second quarter, which impacts the number of available workdays.

In addition, we have experienced and expect to continue to experience quarterly variations in revenues and net income as a result of other factors, including:

- the timing and volume of customers construction and maintenance projects,
- budgetary spending patterns of customers,
- the commencement or termination of master service agreements and other long-term agreements with customers,
- costs incurred to support growth internally or through acquisitions,
- fluctuation in results of operations caused by acquisitions,
- changes in mix of customers, contracts, and business activities, and
- fluctuations in insurance expense due to changes in claims experience and actuarial assumptions.

Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

**Risk Factors**

*You should carefully consider the risks described below, together with all of the other information in this Form 10-K. If any of the following risks actually occur, or other risks not presently known to us or that we do not currently believe to be significant do develop and occur, our financial condition and results of operations could suffer and the trading price of our common stock could decline.*

*Demand for our services is cyclical, dependent in large part on the telecommunications industry and could be adversely affected by an economic slowdown.* Demand for our services has been, and will likely continue to be, cyclical in nature and vulnerable to general downturns in the U.S. economy. In fiscal 2005, our telecommunications customers accounted for 74.3% of our revenues. In fiscal 2002 and the first half of fiscal 2003, certain segments of the telecommunications industry suffered a severe downturn that resulted in a number of our customers experiencing financial difficulties. Several of our customers filed for bankruptcy protection, including Adelphia and WorldCom. Additional bankruptcies or financial difficulties of companies in the telecommunications sector could reduce our cash flows and adversely impact our liquidity and profitability. During times of economic slowdown, the customers in the industries we serve often reduce their capital expenditures and defer or cancel pending infrastructure projects. Such developments occur even among customers that are not experiencing financial difficulties. Future economic slowdowns in the industries we serve may impair the financial condition of some of our customers, which may cause them to reduce their capital expenditures and demand for our specialty contracting services and may hinder their ability to pay us on a timely basis or at all.

*We derive a significant portion of our revenues from master service agreements, which may be cancelled upon short notice, and we may be unsuccessful in replacing these agreements as they are completed or expire.* We currently derive a significant portion of our revenues from master service agreements. By their terms, the majority of these contracts may be cancelled by our customers upon short notice, even if we are not in default under these agreements. In addition, projected expenditures by customers under these agreements are not assured until such time as a definitive work order is placed and completed. If a significant customer cancels its master services agreement with us and we were unable to replace the agreement with another on similar terms, our results of operations, cash flows and liquidity could be adversely affected. Recently we have been able to extend some of these agreements on negotiated terms. Market conditions could change, however, and we may not be able to continue to obtain or extend master services agreements through negotiation, and we may be underbid by competitors in an ensuing competitive bidding process. The loss of work obtained through master service agreements could adversely affect our results of operations, cash flows and liquidity.

*The industries we serve are subject to rapid technological and structural changes that could reduce the need for our services and adversely affect our revenues.* The telecommunications industry is characterized by rapid technological change, evolving industry standards and changing customer needs. We generate a significant portion of our revenues from customers in the telecommunications industry. New technology or upgrades to existing technology available to our customers or to our customers competitors could reduce the need for our services and adversely affect our revenues and profitability. New or developing services, such as wireless applications, could displace the wireline systems used by our customers to deliver services to consumers. In addition, improvements in existing technology may allow telecommunication companies to improve their networks without physically upgrading them. Additionally, consolidations, mergers and acquisitions in the telecommunications industry have occurred in the past and may occur in the future. These consolidations, mergers and acquisitions may cause the loss of one or more of our customers. Reduced demand for our services or a loss of a significant customer could adversely affect our results of operations, cash flows and liquidity.

*We derive a significant portion of our revenues from a few customers, and the loss of one or more of these customers could adversely impact our revenues and profitability.* Our customer base is highly concentrated, with our top five customers in each of fiscal years 2005, 2004, and 2003 accounting for approximately 64% of our total revenues. A significant portion of the work we perform for these customers is commissioned under master services agreements, which may be terminated on short notice, even if we are not in default under these agreements. In addition, revenues under our contracts with these customers may vary from period-to-period depending on the timing and volume of work which such customers order in a given period and as a result of competition from the in-house service organizations of our customers. Reduced demand for our services or a loss of a significant customer could adversely affect our results of operations, cash flows and liquidity.

*We operate in a highly competitive industry.* The specialty contracting services industry in which we operate is highly competitive. We compete with other independent contractors, including several that are large domestic companies that may have financial, technical and marketing resources that exceed our own. Our competitors may develop the expertise, experience and resources to provide services that are equal or superior in both price and quality to our services, and we may not be able to maintain or enhance our competitive position. We may also face competition from the in-house service organizations of our existing or prospective customers, particularly telecommunications providers, which employ personnel who perform some of the same types of services as we provide. Although our customers currently outsource a significant portion of these services to us and our competitors, we can offer no assurance that our existing or prospective customers will continue to outsource specialty contracting services to us in the future. In addition, there are relatively few barriers to entry into the markets in which we operate and, as a result, any organization with adequate financial resources and access to technical expertise may become a competitor.

*Our profitability is based on our ability to deliver our services within the costs and estimates used to establish the pricing of our contracts.* Most of our long-term contracts are based on units of delivery, and we recognize revenue as the unit of delivery is completed. As the price for each of the units is fixed by the contract, our profitability could decline if our actual costs to complete each unit exceeds our original estimates. Revenue from other contracts is recognized using cost-to-cost measures of the percentage of completion method and is based on the ratio of contract costs incurred to date to total estimated contract costs. Application of the percentage of completion method of accounting requires that our management estimate the costs to be incurred by us in performing the contract. Our process for estimating costs is based upon the professional knowledge and experience of our project managers and financial professionals. However, any changes in original estimates, or the assumptions underpinning such estimates, may result in revisions to costs and income and their effects would be recognized in the period during which such revisions were determined. These changes could result in a reduction or elimination of previously reported profits, which could adversely affect our profitability and the price of our common stock.

*We have a significant amount of accounts receivable and costs and estimated earnings in excess of billings assets.* We grant credit to our customers, which include telephone companies, cable television multiple system operators, a direct broadcast satellite operator, and other gas and electric utilities. At year-end fiscal 2005, we had net accounts receivable of $161.3 million and costs and estimated earnings in excess of billings of $65.6 million. We periodically assess the credit of our customers and continuously monitor the timeliness of payments. Our customers may be adversely affected by an economic downturn, which may subject us to potential credit risks. In fiscal 2002, we recorded $20.6 million of bad debt expense attributable to receivables due from Adelphia and WorldCom. Adelphia and WorldCom both filed for bankruptcy protection during fiscal 2002. If any of our significant customers file for bankruptcy or experience financial difficulties, we could experience difficulty in collecting what we are owed by them for work already performed or in process, which could lead to reduced cash flows and a decline in our liquidity. Additionally, we may incur losses in excess of current allowances provided.

*We self insure against certain potential liabilities, which leaves us potentially exposed to higher than expected liability claims.* We retain the risk, up to certain limits, for automobile liability, general liability, workers compensation, locate damage claims, and employee group health claims. We estimate and develop our accrual for claims in future periods based on facts, circumstances and historical evidence. However, the calculation of the estimated accrued liability for self-insured claims remains subject to inherent uncertainty. Should a greater number of claims occur compared to what we have estimated, or should the dollar amount of actual claims exceed what we anticipated, our recorded reserves may not be sufficient, and we could incur substantial additional unanticipated charges. See Critical Accounting Policies Self-Insured Claims Liability .

*The loss of certain key managers could adversely affect our business.* We depend on the performance of our executive officers and the senior management of our subsidiaries. Our senior management team has numerous years of experience in our industry, and the loss of any of them could negatively affect our ability to execute our business strategy. Although we have entered into employment agreements with our executive officers and certain other key employees, we cannot guarantee that any key management personnel will remain with us for any length of time. The loss of key management could adversely affect the management of our operations. We do not carry significant key-person life insurance on any of our employees.

*Our results of operations may fluctuate seasonally.* Most of our work is performed outdoors and as a result, our results of operations are impacted by extended periods of inclement weather. Generally, inclement weather occurs during the winter season which falls during our second and third quarters of the fiscal year. In addition, a disproportionate percentage of total holidays fall within our second quarter, which impacts the number of available workdays. As a result, we may experience reduced revenues in the second and third quarters of each year.

*If we fail to integrate future acquisitions successfully, this could adversely affect our business and results of operations.* As part of our growth strategy, we may acquire companies that expand, complement, or diversify our business. We regularly review various opportunities and periodically engage in discussions regarding such possible acquisitions. Future acquisitions may expose us to operational challenges and risks, including the diversion of management s attention from our existing business, the failure to retain key personnel or customers of an acquired business, the assumption of unknown liabilities of the acquired business for which there are inadequate reserves and the potential impairment of acquired intangible assets. Our ability to sustain our growth and maintain our competitive position may be affected by our ability to successfully integrate any businesses acquired.

*Our backlog is subject to reduction and/or cancellation.* Our backlog is comprised of the uncompleted portion of services to be performed under job-specific contracts and the estimated value of future services that we expect to provide under long-term requirements contracts, including master service agreements. In many instances our customers are not contractually committed to specific volumes of services under a contract. However, the customer is obligated once the services are requested by the customer and provided by us. Many of our contracts are multi-year agreements, and we include in our backlog the amount of services projected to be performed over the terms of the contracts based on our historical relationships with customers and our experience in procurements of this nature. For certain recently initiated multi-year projects relating to fiber deployments for one of our significant customers, we have included in backlog only those amounts relating to calendar year 2005. We have taken this approach with respect to these fiber deployment projects because, when initially installed, they are not required for the day-to-day provision of services by our customer. Consequently, these programs have generally been subject to more uncertainty, as compared to those of our other customers, with regards to budgets and activity levels. Our estimates of a customer s requirements during a particular future period may not be accurate at any point in time. If our estimated backlog is significantly inaccurate or does not result in future profits, this could adversely affect our results of operations, cash flows and liquidity.

*We may incur impairment charges on goodwill or other intangible assets in accordance with SFAS No. 142.* In accordance with SFAS No. 142, we conduct on at least an annual basis a review of our reporting units to determine whether the carrying value of their respective assets exceeds their corresponding fair market value. Should this be the case, we would determine that the value of our goodwill is impaired and such goodwill would be written down. Any such write-down could adversely affect our results of operations. During 2005, as the result of our annual impairment analysis, we recognized a non-cash after tax charge of approximately $29.0 million in order to reduce the carrying value of goodwill related to our White Mountain Cable Construction subsidiary. We may incur future impairment if our operating results deteriorate for reasons such as those described under Risk Factors in this annual report.

*Unanticipated changes in our tax rates or exposure to additional income and other tax liabilities could affect our profitability.* We are subject to income taxes in many different jurisdictions of the United States and our tax liabilities are subject to the apportionment of income in different jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings in locations with differing tax rates, in the valuation of deferred tax assets and liabilities or in tax laws or by material audit assessments, which could affect our profitability. In particular, the carrying value of deferred tax assets is dependent on our ability to generate future taxable income. In addition, the amount of income and other taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

*Many of our telecommunications customers are highly regulated and the addition of new regulations or changes to existing regulations may adversely impact their demand for our specialty contracting services and the profitability of those services.* Many of our telecommunications customers are regulated by the FCC. The FCC may interpret the application of its regulations to telecommunication companies in a manner that is different than the way such regulations are currently interpreted and may impose additional regulations. If existing or new regulations have an adverse affect on our telecommunications customers and adversely impact the profitability of the services they provide, then demand for our specialty contracting services may be reduced.

*Our operations expose us to various safety and environmental regulations.* We are required to comply with increasingly stringent laws and regulations governing environmental protection and workplace safety. With respect to safety, our workers frequently operate heavy machinery and, as such, they are subject to potential injury to themselves or others in the vicinity of work being performed. If any of our workers or any other persons are injured or killed in the course of our operations, we could be found to have violated relevant safety regulations, which could result in a fine or, in extreme cases, criminal sanction.

A significant portion of our operations result in work performed underground. As a result, we are potentially subject to material liabilities related to encountering underground objects which may cause the release hazardous materials or substances. The environmental laws and regulations which may relate to our business include those regarding the removal and remediation of hazardous substances and waste. These laws and regulations can impose significant fines and criminal sanctions for violations. Costs associated with the discharge of hazardous materials or substances may include clean-up costs and related damages or liabilities. These costs could be significant and could adversely affect our results of operations and cash flows.

**Recently Issued Accounting Pronouncements**

See Note 1, Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for discussion of New Accounting Pronouncements.

## PART IV

**Item 15.** ***Exhibits***

The following exhibits are filed as a part of this report:

| Exhibit Number | Title |
|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DYCOM INDUSTRIES, INC.
Registrant

/s/ Steven E. Nielsen

Name: Steven E. Nielsen
Title: President and Chief Executive Officer

Date: August 1, 2006