MYR GROUP INC.
Form 10-Q
May 04, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2016**

**OR**

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

**For the transition period from to**

**Commission file number: 1-08325**

**MYR GROUP INC.**

(Exact name of registrant as specified in its charter)

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

| | |
|---|---|
| **1701 Golf Road, Suite 3-1012**<br>**Rolling Meadows, IL**<br>(Address of principal executive offices) | **60008**<br>(Zip Code) |

**(847) 290-1891**

(Registrant’s telephone number, including area code)

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

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

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

| | |
|---|---|
| Large accelerated filer ¨ | Accelerated filer x |
| Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

As of April 22, 2016, there were 18,226,788 outstanding shares of the registrant’s $0.01 par value common stock.

**WEBSITE ACCESS TO COMPANY'S REPORTS**

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

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

**MYR GROUP INC.**

**CONSOLIDATED BALANCE SHEETS**

| (In thousands, except share and per share data) | March 31, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,039 | $ 39,797 |
| Accounts receivable, net of allowances of $346 and $376, respectively | 172,815 | 187,235 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 71,557 | 51,486 |
| Receivable for insurance claims in excess of deductibles | 8,557 | 11,290 |
| Refundable income taxes | 4,710 | 5,617 |
| Other current assets | 6,368 | 7,942 |
| Total current assets | 290,046 | 303,367 |
| Property and equipment, net of accumulated depreciation of $189,449 and $181,575, respectively | 153,751 | 160,678 |
| Goodwill | 47,124 | 47,124 |
| Intangible assets, net of accumulated amortization of $4,009 and $3,798, respectively | 11,151 | 11,362 |
| Other assets | 2,532 | 2,394 |
| Total assets | $ 504,604 | $ 524,925 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt, including capital leases | $ 129 | $ — |
| Accounts payable | 80,484 | 73,300 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 44,640 | 40,614 |
| Accrued self insurance | 33,589 | 36,967 |
| Other current liabilities | 24,926 | 28,856 |
| Total current liabilities | 183,768 | 179,737 |
| Deferred income tax liabilities | 14,308 | 14,382 |
| Long-term debt, including capital leases, net of current maturities | 616 | — |
| Other liabilities | 894 | 926 |
| Total liabilities | 199,586 | 195,045 |
| Commitments and contingencies | | |
| Stockholders’ equity: | | |
| Preferred stock—$0.01 par value per share; 4,000,000 authorized shares; none issued and outstanding at March 31, 2016 and December 31, 2015 | — | — |
| Common stock—$0.01 par value per share; 100,000,000 authorized shares; 18,878,060 and 19,969,347 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively | 187 | 198 |

| | | |
|---|---|---|
| Additional paid-in capital | 151,950 | 161,342 |
| Accumulated other comprehensive income | 35 | 116 |
| Retained earnings | 152,846 | 168,224 |
| Total stockholders’ equity | 305,018 | 329,880 |
| Total liabilities and stockholders’ equity | $ 504,604 | $ 524,925 |

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

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**MYR GROUP INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

| (In thousands, except per share data) | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Contract revenues | $253,634 | $244,148 |
| Contract costs | 226,353 | 214,774 |
| Gross profit | 27,281 | 29,374 |
| Selling, general and administrative expenses | 23,859 | 18,592 |
| Amortization of intangible assets | 211 | 83 |
| Gain on sale of property and equipment | (96) | (898) |
| Income from operations | 3,307 | 11,597 |
| Other income (expense) | | |
| Interest income | 4 | 7 |
| Interest expense | (183) | (179) |
| Other, net | 108 | (58) |
| Income before provision for income taxes | 3,236 | 11,367 |
| Income tax expense | 1,249 | 4,195 |
| Net income | $1,987 | $7,172 |
| Income per common share: | | |
| —Basic | $0.10 | $0.35 |
| —Diluted | $0.10 | $0.34 |
| Weighted average number of common shares and potential common shares outstanding: | | |
| —Basic | 19,321 | 20,562 |
| —Diluted | 19,634 | 21,052 |
| | | |
| Net income | $1,987 | $7,172 |
| Other comprehensive income: | | |
| Foreign currency translation adjustment | (81) | — |
| Other comprehensive loss | (81) | — |
| Total comprehensive income | $1,906 | $7,172 |

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

**MYR GROUP INC.**

**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (In thousands) | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $1,987 | $7,172 |
| Adjustments to reconcile net income to net cash flows provided by operating activities — | | |
| Depreciation and amortization of property and equipment | 9,705 | 8,881 |
| Amortization of intangible assets | 211 | 83 |
| Stock-based compensation expense | 730 | 1,049 |
| Deferred income taxes | (75) | (30) |
| Gain on sale of property and equipment | (96) | (898) |
| Other non-cash items | (61) | 62 |
| Changes in operating assets and liabilities | | |
| Accounts receivable, net | 14,420 | 1,389 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (20,071) | (20,081) |
| Receivable for insurance claims in excess of deductibles | 2,733 | 50 |
| Other assets | 2,046 | 2,158 |
| Accounts payable | 8,004 | 5,189 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 4,026 | (5,082) |
| Accrued self insurance | (3,378) | (951) |
| Other liabilities | (5,755) | 2,379 |
| Net cash flows provided by operating activities | 14,426 | 1,370 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property and equipment | 1,032 | 938 |
| Purchases of property and equipment | (3,769) | (16,362) |
| Net cash flows used in investing activities | (2,737) | (15,424) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 104 | 378 |
| Excess tax benefit from stock-based awards | 135 | 1,010 |
| Repurchase of common shares | (25,686) | (3,140) |
| Net cash flows used in financing activities | (25,447) | (1,752) |
| Net decrease in cash and cash equivalents | (13,758) | (15,806) |
| Cash and cash equivalents: | | |
| Beginning of period | 39,797 | 77,636 |
| End of period | $26,039 | $61,830 |

Supplemental cash flow information:

Noncash investing activities:

| | | |
|---|---|---|
| Acquisition of property and equipment acquired under capital lease arrangements | $745 | $— |
| | | |
| Noncash financing activities: | | |
| Share repurchases not settled | $2,691 | $— |
| Capital lease obligations initiated | 745 | — |

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

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**MYR GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

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

**Organization and Business**

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

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

**Basis of Presentation**

***Interim Consolidated Financial Information***

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

***Foreign Currency***

The functional currency for the Company's Canadian operations is the Canadian dollar. Assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at the end-of-period exchange rate. Revenues and expenses are translated using average exchange rates for the periods reported. Cumulative translation adjustments are included as a separate component of accumulated other comprehensive income in shareholders' equity. Foreign currency transaction gains and losses, arising primarily from changes in exchange rates on foreign currency denominated balances, are recorded in the "other, net" line on the consolidated statements of operations. For the three months ended March 31, 2016, the Company recorded $0.2 million of foreign currency gains.

***Use of Estimates***

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

The percentage of completion method of accounting requires the Company to make estimates about the expected revenue and gross profit on each of its contracts in process. The estimates are reviewed and revised quarterly, as needed. During the three months ended March 31, 2016, changes in estimates pertaining to certain projects resulted in decreased consolidated gross margin of 0.6%. The Company’s income from operations for the three months ended March 31, 2016 decreased $1.5 million due to the changes in estimated gross profit. These changes in estimates resulted in decreases of $0.9 million in net income or $0.05 in diluted earnings per common share during the three months ended March 31, 2016. During the three months ended March 31, 2015, changes in estimates pertaining to certain projects, the majority of which were transmission projects, resulted in increased consolidated gross margin of 1.5%. The Company’s income from operations for the three months ended March 31, 2015 increased $3.7 million due to the changes in estimated gross profit. These changes in estimates resulted in increases of $2.3 million in net income or $0.11 in diluted earnings per common share during the three months ended March 31, 2015.

***Recent Accounting Pronouncements***

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

***Recently Issued Accounting Pronouncements***

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

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments under this pronouncement may change how an entity recognizes revenue from contracts it enters to transfer goods, services or nonfinancial assets to its customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. This framework is expected to result in less complex guidance in application while providing a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1: Identify the contract(s) with the customer; Step 2: Identify the performance obligations in the contract; Step 3: Determine the transaction price; Step 4: Allocate the transaction price to the performance obligations in the contract; Step 5: Recognize revenue when, or as, the entity satisfies the performance obligations. In addition, the amendments require expanded disclosure to enable the users of the financial statements to understand the nature, timing and uncertainty of revenue and cash flow arising from contracts with customers. On August 16, 2015, the FASB deferred the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date, permitting early adoption of the standard, but not before the original effective date of December 15, 2016. The Company is evaluating the impact of this pronouncement on its policies and procedures pertaining to recognition of revenue from contracts with customers, the pronouncement’s expanded disclosure requirements and the impact on the Company’s Financial Statements.

**2. Acquisitions**

*E.S. Boulos Company*

On April 13, 2015, the Company acquired substantially all of the assets of E.S. Boulos Company ("ESB"), one of New England's largest and most experienced electrical contractors with over 95 years in operation, from a subsidiary of Eversource Energy. The total consideration paid was approximately $11.4 million, subject to working capital adjustments, which was funded through existing cash resources of the Company. Headquartered in Westbrook, Maine, ESB offers construction capabilities under the Company's T&D segment, including substation, transmission and distribution construction. ESB also provides commercial and industrial electrical construction under its C&I segment, including a wide range of commercial electrical construction services.

The results of operations for ESB are included in the Company's consolidated statement of operations and the T&D and C&I segments from the date of acquisition. Costs of approximately $0.4 million related to the acquisition were included in selling, general and administrative expenses in the consolidated statement of operations. The purchase accounting for ESB was complete as of December 31, 2015. The following table summarizes the allocation of the balance sheet from as of March 31, 2016:

| | (adjusted acquisition amounts as of) March 31, 2016 |
|---|---|
| Total consideration | $ 11,374 |
| Accounts receivable | $ 10,662 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 2,102 |
| Other current assets | 59 |
| Property and equipment | 2,031 |
| Intangible assets | 2,068 |
| Accounts payable | (3,621) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (1,490) |
| Other current liabilities | (437) |
| Net identifiable assets | 11,374 |
| Goodwill | $ — |

*High Country Line Construction, Inc.*

On November 24, 2015, the Company acquired all of the outstanding common stock of High Country Line Construction, Inc. (“HCL”). The acquisition of HCL expands the Company’s T&D construction services, predominantly in the western United States. The preliminary acquisition date fair value of consideration transferred was $1.7 million, net of cash acquired, of which $0.5 million was preliminarily allocated to goodwill. The Company’s process of valuing the acquired assets and liabilities is in its preliminary stages. Costs of approximately $0.2 million related to the acquisition were included in selling, general and administrative expenses in the December 31, 2015 consolidated statement of operations.

**3. Fair Value Measurements**

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

As of March 31, 2016 and December 31, 2015, the carrying value of the Company’s cash and cash equivalents approximated fair value based on Level 1 inputs.

**4. Contracts in Process**

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

| (In thousands) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Costs and estimated earnings on uncompleted contracts | $1,900,080 | $ 2,153,085 |
| Less: Billings to date | 1,873,163 | 2,142,213 |
| | $26,917 | $ 10,872 |

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

| (In thousands) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Costs and estimated earnings in excess of billings on uncompleted contracts | $ 71,557 | $ 51,486 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (44,640 ) | (40,614 ) |
| | $ 26,917 | $ 10,872 |

**5. Income Taxes**

The difference between the U.S. federal statutory tax rate of 35% and the Company's effective tax rates for the three months ended March 31, 2016 and 2015 was principally due to state income taxes.

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

The Company's policy is to recognize interest and penalties related to income tax liabilities as a component of income tax expense in the consolidated statements of operations. The amount of interest and penalties charged to income tax expense because of the unrecognized tax benefits was not significant for the three months ended March 31, 2016 and 2015.

The Company is subject to taxation in various jurisdictions. The Company’s tax returns for 2012 through 2014 are currently under examination by U.S. federal authorities. The company’s tax returns are subject to examination by various state authorities for the years 2011 through 2014.

**6. Commitments and Contingencies**

***Letters of Credit***

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

***Leases***

The Company leases real estate, construction equipment and office equipment under operating leases with remaining terms ranging from one to six years. As of March 31, 2016, future minimum lease payments for operating leases were as follows: $1.7 million for the remainder of 2016, $1.8 million for 2017, $1.3 million for 2018, $1.0 million for 2019, $0.5 million for 2020 and $0.2 million thereafter.

***Purchase Commitments***

As of March 31, 2016, the Company had approximately $0.6 million in outstanding purchase orders for certain construction equipment, with cash outlay requirements scheduled to occur over the next two months.

***Insurance and Claims Accruals***

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

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

***Performance and Payment Bonds***

In certain circumstances, the Company is required to provide performance and payment bonds in connection with its future performance on certain contractual commitments. The Company has indemnified its surety for any expenses paid out under these bonds. As of March 31, 2016, an aggregate of approximately $872.1 million in original face amount of bonds issued by the surety were outstanding. Our estimated remaining cost to complete these bonded projects was approximately $104.6 million as of March 31, 2016.

***Indemnities***

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

***Collective Bargaining Agreements***

Many of the Company's subsidiaries' craft labor employees are covered by collective bargaining agreements. The agreements require the subsidiaries to pay specified wages, provide certain benefits and contribute certain amounts to multi-employer pension plans. If a subsidiary withdraws from any of the multi-employer pension plans or if the plans were to otherwise become underfunded, the subsidiary could incur additional liabilities related to these plans. Although the Company has been informed that some of the multi-employer pension plans to which its subsidiaries contribute have been classified as "critical" status, the Company is not currently aware of any significant liabilities related to this issue.

***Litigation and Other Legal Matters***

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

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

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

**7. Stock-Based Compensation**

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

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

During the three months ended March 31, 2016, pla