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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MYR Group, Inc. second-quarter 2016 conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, and instructions will be given at that time. (Operator instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Steve Carr. You may begin.

Steve Carr - *Dresner Corporate Services - IR*

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group conference call to discuss the Company's second quarter results for 2016, which were reported yesterday.

Joining us on today's call are Bill Koertner, President and Chief Executive Officer; Betty Johnson, Senior Vice President, Chief Financial Officer, and Treasurer; and Rick Swartz, Senior Vice President and Chief Operating Officer.

If you did not receive yesterday's press release, please contact Dresner Corporate Services at 312-726-3600, and we will send you a copy. Or go to www.myrgroup.com where a copy is available under the Investor Relations tab.

Also, a replay of today's call will be available until Wednesday, August 10, 2016 at 11:59PM Eastern time by dialing 855-859-2056 or 404-537-3406 and entering conference ID 31169633.

Before we begin, I want to remind you that this discussion may contain forward-looking statements. Any such statements are based upon information available to MYR management as of this date, and MYR assumes no obligation to update any such forward-looking statements.

These forward-looking statements include risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the Company's annual report on Form 10-K for the year ended December 31, 2015, the Company's quarterly report on Form 10-Q for the second quarter of 2016, and in yesterday's press release.

Certain non-GAAP financial information will be discussed on the call today. A reconciliation of this non-GAAP information to the most comparable GAAP measure is set forth in yesterday's press release. With that said, let me turn the call over the Bill Koertner.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Thanks, Steve. Good morning, everyone. Welcome to our second-quarter 2016 conference call to discuss financial and operational results. I will begin by providing a brief summary of results and then turn the call over to Betty Johnson, our CFO, for a more detailed financial review. Following Betty's discussion, Rick Swartz, our Chief Operating Officer, will provide an overall industry outlook and discuss some of MYR's plans going forward. I will then conclude with a few closing remarks and open the call up for your comments and questions.

The second quarter of 2016 showed improvement over the first quarter of 2016. Although our revenues were down compared to the second quarter of 2015, our backlog increased and margins improved due mainly to improve project execution. Our organic growth markets contributed to our results for the quarter, and we made steady progress on integrating the two acquisitions made last year.

At the end of the quarter, we entered into an amended and restated five-year credit agreement which expands our borrowing capacity to $250 million. The new credit agreement provides added resources and flexibility to execute our three-pronged strategy of prudent organic growth, strategic acquisitions, and capital returns to shareholders. We expect this expanded borrowing capacity will allow us to continue to grow our T&D and C&I businesses to expand into new markets and to contribute to enhanced shareholder value.

As many of you know, subsequent to the second quarter, we completed our authorized $142.5 million share repurchase program resulting in total share repurchases of over $6 million shares. The Board continuously reviews all means of balancing our investment and growth opportunities with returning capital to shareholders. On July 28, the Board extended the share repurchase program through August 15, 2017 and authorized an additional $20 million for repurchases of our shares.

We experienced healthy bidding activity throughout the second quarter in both our T&D and C&I markets. While we are still faced with a highly competitive bidding climate, our backlog increased by $40.2 million, or 9.3% from the prior quarter, to $475 million, which is our highest level since December 31, 2012. We continue to review our cost structure and make adjustments when appropriate to improve our competitive position.

Our bid estimates are based on our current cost structure plus a reasonable markup given the inherent risks of the work. We try to avoid chasing revenue by basing our bids on guesstimates of where various competitors might bid. We believe this disciplined approach to bidding and risk management are key to creating long-term, lasting shareholder value.

Our 125-year legacy of outstanding project performance, solid operational and financial results, strong relationships with customers and employees, suppliers, and stockholders, along with a strong balance sheet are attributes that will provide MYR a firm foundation as we continue to adapt and thrive in an ever-changing market.

As always, we encourage and value the input of our stockholders. Your participation in and support of MYR's long-term strategies to maximize shareholder value are essential for our continued success.

Now Betty will provide details on our financial results for the second quarter.

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

Thank you, Bill, and good morning, everyone. As Bill stated earlier, project execution and the contributions made by our organic and acquisition growth initiatives improved our results as compared to the last quarter. Our revenues, gross profit, gross margins, net income, EPS, and backlog all improved over the last quarter.

Our second-quarter 2016 revenues were $261.9 million, which represented a $14.6 million, or 5.3% decrease, compared to the same period of 2015. The decrease was primarily due to a decline in revenue from large multiyear transmission projects, which was partially offset by an increase in our organic and acquisitive growth.

Compared to 2015's second quarter, T&D revenues decreased $22 million, or 11%, to $178.6 million. C&I revenues reached a record high at $83.3 million, an increase of $7.4 million, or 9.7%, for the same period last year. The breakdown of T&D for the second quarter 2016 is $134.3 million of transmission and $44.3 million for distribution.

Our overall gross profit in the second quarter of 2016 was $31.4 million compared to $31.7 million in the second quarter of 2015. The decrease in gross profit was primarily due to lower revenues partially offset by higher margins.

Our gross margin was 12% in the second quarter of 2016 compared to 11.5% the same period last year. An increase in gross margin was primarily due to the improved performance on several projects, which were partially offset by some significant write-downs due to a pending project claim, pending change orders, and inclement weather experienced on certain projects.

Changes in our estimates of gross profit on certain projects resulted in gross margin increases of 10 basis points in the second quarter of 2016 compared to an increase of 100 basis points for the second quarter of 2015.

Second quarter 2016 SG&A expenses were $22.5 million compared to $18.9 million in the second quarter of 2015. The $3.6 million increase included approximately $2.3 million of costs associated with our organic and acquisitive expansion into new markets and higher payroll costs to support operations. SG&A as a percentage of revenue represents 8.6% for the second quarter of 2016, up from 6.9% for the second quarter of 2015.

Second quarter 2016 EBITDA was $18.9 million compared to $22.3 million in the second quarter of 2015.

Our provision for income taxes decreased to $3.3 million in the second quarter of 2016 compared to $4.7 million in the same quarter of 2015. Our effective tax rate for the second quarter of 2016 was 37.8% compared to 37% in the second quarter of 2015. The increase in effective tax rate was primarily caused by the year-to-date impact of lower domestic activity deductions and changes in the mix of business between states.

Second quarter 2016 net income was $5.5 million or $0.31 per diluted share compared to $8.1 million or $0.38 per diluted share in the second quarter of 2015.

Shifting now to our first-half 2016 results. Revenues decreased $5 million, or 1%, to $515.6 million compared to $520.6 million in the first half of 2015. The decrease was primarily due to lower T&D revenues, mostly offset by higher C&I revenue and organic and acquisitive growth.

Our overall gross profit in the first half of 2016 was $58.7 million compared to $61.1 million in the first half of 2015 due to lower revenue and gross margin. Gross margin decreased to 11.4% versus 11.7% in the first half of 2015 primarily due to lower bid margins caused by increased competition in many of our markets and an increase in shorter-duration projects, which result in lower labor productivity and higher overall mobilization and demobilization cost.

Additionally, as I mentioned earlier, we experienced some significant write-downs due to a pending project claim, and change orders, inclement weather, lower productivity experienced on certain jobs. These declines were partially offset by favorable closeout and improved performance in several other projects.

Changes in estimates of gross profit on certain jobs results in a 70 basis point decrease in gross margin in the first half of 2016 compared to 110 basis point increase in the first half of 2015.

First-half 2016 SG&A expenses were $46.4 million compared to $37.5 million in the first half of 2015. The $8.9 million increase was primarily due to $5.3 million of costs associated with our expansion into new geographic markets and $1 million associated with activist investor activities. We also experienced higher payroll cost to support operations and higher medical cost, which were partially offset by lower profit sharing and stock compensation cost during the first half of 2016. SG&A as a percentage of revenue was 9% for the first half of 2016, up from 7.2% in the first half of 2015.

Net income for the first half of 2016 was $7.5 million compared to net income of $15.2 million in the first half of 2015.

Diluted earnings per share were $0.40 for the first half of 2016 compared to $0.72 for the first half of 2015.

EBITDA declined to $32.2 million for the first half of 2016 compared to $42.9 million for the first half of 2015.

Total backlog at June 30, 2016 was $475 million consisting of $304.6 million in the T&D segment and $170.4 million in the C&I segment. This represents an increase of $40.2 million or 9.3% from last quarter. Our backlog has increased in 8 of the past 10 quarters, and was at our highest level since December 31, 2012 with C&I backlog at a record high.

T&D backlog at June 30, 2016 increase $11 million, or 3.8%, while C&I backlog increased $29.2 million, or 20.7%, from March 31, 2016.

Turning to the balance sheet, at June 30, 2016, we had approximately $3.4 million in cash and cash equivalents, $24.6 million of outstanding funded debt and capital leases, and $205.7 million in availability under our credit facility.

Shareholder's equity was $245.7 million at June 30, 2016, $94.8 million lower than the $340.5 million at June 2015 primarily due to the $119.5 million of share repurchases in the last 12 months.

As it relates to our share repurchase program, in the second quarter 2016, we purchased almost 2.8 million of our common stock for $67.6 million. As of June 30, we had $5.5 million of availability under the program. As of July 12, we had exhausted the remaining availability under the share repurchase program under which we repurchased over 6 million shares of our common stock for $142.5 million and an average share price of $23.64 per share.

On July 28, our Board of Directors approved an additional $20 million of capacity for the share repurchase program and extended the program through August 15, 2017. These additional funds are to be used to repurchase shares of our common stock, albeit at a less aggressive pace than pursued during the first half of 2016.

I will now turn the call over to Rick who will provide an overall industry outlook and our view of MYR's opportunities.

Rick Swartz - *MYR Group, Inc - SVP & COO*

Thanks, Betty, and good morning, everyone. We experienced steady bidding activity throughout the second quarter for all of our operations groups in both US and Canada. While both the T&D and C&I markets remain competitive, we believe that we are entering into an improved phase of project opportunity as we begin the second half of 2016, and we look forward to 2017.

A number of large projects have now progressed to the permitting stage, and the overall miles of these large transmission jobs that are close to breaking ground has increased since 2015. Growth expectations indicate this trend is likely to continue throughout 2018 and beyond.

Although the past few quarters have been challenging, the main drivers that point to continued investment by our utility clients remain in tact. Ensuring grid reliability, integrating renewable and natural gas resources to replace [coal] generation, and replacing aging infrastructure all continue to spur investment into our nation's transmission system.

On the regulatory front, we continue to monitor developments related to the clean power plant, or CPP, and FERC Order 1000. The CPP is currently making its way through the judicial system. In the second quarter, the Brattle Group issued a report on the need to properly plan transmission in order to address the challenges of a rapidly evolving energy mix in the US, as well as the challenges and opportunities related to CPP enforcement.

In their estimation, effective transmission planning that addresses current and future environmental regulation, such as the CPP, can help reduce the total transmission and generation cost for compliance by an estimated $30 billion to $70 billion by 2030.

The Group also cites a recent study conducted by the Eastern Interconnection States Planning Council, the National Association of Regulatory Utility Commissioners, and the Department of Energy that states: In order to support future generation investment, the US will need to invest $50 billion to $110 billion for inter-regional transmission over the next 30 years.

Regarding FERC Order 1000, we believe that some progress was made in the second quarter when the Federal Energy Regulatory Commission held a conference to discuss issues related to the competitive transmission process and how it can better coordinate planning and cost allocation. Although a robust debate surrounding FERC Order 1000 will continue, the conference is viewed as a positive step towards allowing more competitive transmission projects to come to market.

In spite of ongoing uncertainty with regulatory issues, spending projections by utilities remain historically high. In the second quarter, the Edison Electrical Institute increased its September 2015 projections of capital expenditures by investor-owned utilities for the remainder of 2016 and 2017. EEI's new projections show estimated total capital expenditures to be $117 billion in 2016, $100.5 billion in 2017, and $94.2 billion in 2018.

The projections for 2016 and 2017 are up 16.4% and 9% respectively from previous projections made in September of 2015. This report includes EEI's first release of its projections for 2018. Of these projections, 26% include distribution-related investments, and 18% include transmission investments driven by grid modernization and system expansion initiatives.

Also in the second quarter, several utilities announced their plans for additional investment in transmission, distribution, and generation projects. Duke Energy announced in early May that it will invest between $25 billion to $30 billion on new transmission grid, generation, and pipeline infrastructure over the next five years. As part of this announcement, Duke reaffirmed its planned seven-year, $1.4 billion investment to upgrade the grid system in Indiana.

Pennsylvania Power and Light also announced plans to invest an additional $16 billion over the next five years to improve system reliability and advance a cleaner energy mix. In addition, Exelon announced that it will spend upwards of $23 billion across its utilities over the next three years. MYR Group maintains a strong geographical presence in all of these service territories.

One of our targeted growth clients in California, Southern California Edison, announced that it will invest $4.1 billion in 2016 and $4.2 billion in 2017 as part of its capital spending plan, which will include transmission and distribution replacement projects. These projects are projected to annually replace on average 24,000 distribution polls, 4,000 transmission polls, 500 miles of underground cable, and 225 substation circuit breakers.

These announcements, in addition to projections by the Edison Electric Institute, reinforce our belief that the overall trend of steady investment by utilities throughout the US is likely to continue into the foreseeable future. We expect to receive our fair share of these project awards.

In addition to the positive spending news from utilities, recent industry headlines suggest that we may see several large transmission projects come to market in the next few years. These projects take years to navigate through the regulatory, permitting, and planning processes. We believe that the need to transmit more renewable energy resources from less populated areas of the country to more populated areas will only reinforce the need for these large projects to be fully developed and constructed.

In the second quarter, the Bureau of Land Management, or BLM, issued a final environmental impact statement for the 400- to 540-mile 500kV Gateway South Project. This project being developed by Berkshire Hathaway's Pacific Corp Division will travel from Southeastern Wyoming to Central Utah and will help deliver new generation to growing populated areas of the country.

Also in the Western US, the BLM recently issued its record of decision to the Southline Project. This project will span 360 miles from Southern New Mexico to Arizona. These projects along with other large projects such as the TransWest Express and the Boardman to Hemingway Project all may come to fruition within the next five years.

In addition to these projects in the West, American Electric Power and Oncor recently announced the Far West Texas Project, a joint development in Texas that we believe will provide MYR opportunity in one of our growth markets. This project will consist of 219 miles of new 345kV transmission, and MYR is well-positioned for this work through our ongoing operations in this region.

Shifting to the distribution market, drivers for increased distribution spending remain in tact such as reliability mandates, grid modernization initiatives, growth in housing developments in certain parts of the country, and rooftop solar generation. We're also seeing increases in utility crew augmentation providing greater outsourcing opportunities for contractors like MYR as utility spending increases.

Activity in our C&I divisions remain strong, and we've continued to see improved bidding opportunities in two of our markets, Arizona and Nevada. In Colorado, we are pursuing opportunities in health care, aerospace, water treatment, and pharmaceutical manufacturing. The technical nature of this work demands a contractor like MYR, which possesses a high degree of skill and experience in this area.

We expanded operations in Colorado Springs, which has increased our opportunity in Southern Colorado, in which we have entered into two pre-construction agreements on two notable hospital expansions.

Other active markets in the West include transit, communications, and energy management systems for commercial and industrial facilities.

Throughout the Northwest, there are new developments and initiatives in various market segments including data centers, airport expansions, water treatment facilities, and hospital facilities. In the Northeast, we are seeing private institution and educational facility opportunities as modernization initiatives are taking hold.

Finally, power plant projects may be moving forward as ISO New England takes steps to decrease the carbon footprint and increase renewable energy power sources. This should provide continued growth opportunities for MYR's C&I division going forward.

In conclusion, we remain confident the future will provide opportunities for both our T&D and C&I divisions, and opportunities for organic growth and acquisitions. As we focus efforts in support of our three-pronged strategy and continue to refine our skills, systems, and processes, we believe the fruits of our labor will positively impact our revenues, earnings, and stockholders returns.

Thanks, everyone, for your time today. I'll now turn the call back to Bill.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Thank you for the market update, Rick. We look forward to what we expect will be a more promising second half of 2016 and beyond. We are optimistic about the many exciting opportunities that lie ahead, especially as they relate to progress on several large projects that we have been following for the past few years. The steps we are taking to strengthen our position in the marketplace reinforce our belief in the future of MYR Group.

To conclude, on behalf of Betty, Rick, and myself, I sincerely thank you for joining us on the call today and for your ongoing confidence in MYR Group. I look forward to updating you on our progress next quarter. Operator, we are now ready to open the call up for comments and questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Min Cho, FBR Capital Markets.

Min Cho - *FBR Capital Markets - Analyst*

Great, good morning. Thanks for taking my question. So it obviously sounds like the bidding opportunities are improving across both segments. That's great to hear. But in your 10-Q, it also sounded like you were -- that you had a lot of bids outstanding on several large projects, especially on the T&D side. I was wondering if any large project awards are expected in the second half of this year, or if we're still looking more into 2017 and 2018?

Rick Swartz - *MYR Group, Inc - SVP & COO*

We certainly hope that some of those pending jobs are released. But again, a lot of times, due to permitting or other requirements the customers may be for, they get delayed, they put them back out for rebid or refresh in prices. So though we hope those bids will be released, we can't control the timing of it.

Min Cho - *FBR Capital Markets - Analyst*

All right. Obviously you still talk about the highly competitive markets, especially on the T&D side for these larger projects as well. Can you talk about the margins that are currently in your backlog versus your current margins that are being reported?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Min, we don't disclose the margins in backlog. The margins of new work is comparable to the margins that we've been bidding for the last, say, two years. But we don't disclose the bid margins in our backlog.

Min Cho - *FBR Capital Markets - Analyst*

Okay. But you feel like they're fairly comparable right now?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Fairly comparable to the way we've been bidding for the last two years, which obviously is different than bidding four or five years ago.

Min Cho - *FBR Capital Markets - Analyst*

Right, right. Just moving to some of the new geographies, it sounds like we're starting to see some improvement in the new markets, but it still continues to be a little bit slow. But you can you just provide a little bit more information or detail around the improvements that you're seeing? Is it increase in bidding opportunities? Are you seeing more awards? And if they're more on the T&D side or the C&I side? Just any additional information would be helpful.

Bill Koertner - *MYR Group, Inc. - President & CEO*

So is this in regards to the new markets, your question, Min?

Min Cho - *FBR Capital Markets - Analyst*

Yes.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Okay. Well, first, as we go into a new market, we spend a great deal of time putting together a business case and why we want to go in that market and challenge ourselves. Does it really make sense? Is it a good investment for shareholders? So we have a pretty rigorous process of building a business case. And folks like the three of us on this call, we challenge our operations group to support that business case.

And then when we enter those markets, we're obviously looking at, how are we doing against our business case? And I think generally, we're pleased. Some situations, we're doing a little better in terms of moving into new markets than others. But overall, we're pleased with the new markets. And the reason we entered them is we thought there was a good opportunity for our affiliate to be successful in those markets.

Min Cho - *FBR Capital Markets - Analyst*

Bill, at what point do you reevaluate those markets? If they do take a lot longer to come to fruition, or if the profitability isn't as you expect, at what point do you decide to kind of reevaluate?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well, we have a rigorous monthly process. We close the books each new market as well as existing markets as well as acquisitions. We do a strategic review each month to judge our progress. Now, we didn't enter the market thinking it had to product right away. We view these as an investment.

We're certainly providing staff and challenging that staff to find good, profitable work. And we're entering into lease agreements for space and securing whatever it takes to enter that market. So we look at it monthly, but we're not going to go into a market and then throw up our hands six months down the road. We're going to give it more time to come to fruition than that.

Min Cho - *FBR Capital Markets - Analyst*

Okay. And then my final question -- it was nice to see the revenues from Canada up versus the first quarter. Can you just talk a little bit -- maybe, Rick, talk a little bit about the opportunities that you're seeing specifically in Canada?

Rick Swartz - *MYR Group, Inc - SVP & COO*

We continue to see opportunities on the smaller to mid-size projects. Again, right now with the oil and gas segment the way it is in Canada, we see it's affected our market. It's highly competitive up there.

So as Bill said in his opening comments, we look at every job from a cost basis, understand our cost, put a fair markup on it, and approach it that way. We don't go after work as a must-have job. There's jobs we like to have that we may take a slightly lower margin, whether that's in the US or Canada. But we do focus heavily on our costs so we can have the desired outcome in the end.

Min Cho - *FBR Capital Markets - Analyst*

All right, great. Thank you.

Operator

William Bremer, Maxim Group.

William Bremer - *Maxim Group - Analyst*

Good morning. I wanted to get into the C&I activity there. And specifically on the operating margin, I saw what was in the Q. I was hoping you could get a little more granular in terms of what you're seeing. And possibly, given the backlog there, where are margins -- what's your targeted margins over the long term?

Rick Swartz - *MYR Group, Inc - SVP & COO*

As far as overall margins, as Bill said earlier, we continue to see the bid margins in our backlog similar to what we've seen. Though there's an increased demand, we haven't seen the margins, I would say, significantly increase. On bids that we're putting together right now, I would say they're remaining steady, which allows our backlog to remain somewhat steady from what we've seen in the past. Again, a lot of activity in most areas. A lot of our organic growth areas have to do with the C&I where we followed clients or we chose to develop a new market out there.

Overall, I'm pleased with what I see, but we have had -- this last quarter, we did have one pending claim that affected our financials, and we're doing everything we can to document that. That as something that was beyond our control. It happened early during the construction phase of the project with the general contractor and some of the other subs, and it continued through. So though we feel we have it well documented and going after change orders and associated claims, it's something we're pursuing, and we hope to see the results in the next few quarters.

William Bremer - *Maxim Group - Analyst*

Can you sort of give us an idea of the magnitude of that one-time charge?

Rick Swartz - *MYR Group, Inc - SVP & COO*

We don't specifically give that out because we're under claims in some other situations, so we don't really give the magnitude of that. But it was what I consider a substantial amount.

William Bremer - *Maxim Group - Analyst*

All right, so you expect that the margins would gravitate back to your historical standards then over the next couple quarters?

Rick Swartz - *MYR Group, Inc - SVP & COO*

That's my goal.

William Bremer - *Maxim Group - Analyst*

Okay, great. Thank you, Rick. That's all I have.

Operator

Tahira Afzal, KeyBanc Capital Markets.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Thank you. And Rick, first of all, that was a great sort of (inaudible) job on the electric T&D market, so thank you for that.

Rick Swartz - *MYR Group, Inc - SVP & COO*

Thank you.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

I guess if I see where your T&D backlog growth is bouncing along, and it seems to have stabilized and seems to be building a better momentum, as you look forward, Bill and Rick, do you guys see potentially, based on the backlog you have and the conversations you are having, a T&D topline in the mid single digits as potentially possible into the next year?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Tahira, if we land one of these larger pending jobs, obviously that would be a great boost to our backlog, and we are targeting some of those. We can't predict the outcome of those awards.

We also are having a fair amount of alliance opportunities that we're pursuing. And as you know, we account for alliances differently than many of our competitors where, if we land an alliance, we're only counting three months of revenue for that alliance. That may be conservative compared to how others account for it. But those alliance agreements are very, very important to our Company and probably growing in importance.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Got it, okay. And then as you go out -- and I know this question was essentially already asked, Bill -- but as you go out and try to win these larger opportunities -- I know you are one of the disciplined bidders out there -- how's the competitive market versus a couple of years ago? Do you feel that your disciplined bidding has potentially lowered your win rate, or do you see the same sort of win rate in this environment?

Rick Swartz - *MYR Group, Inc - SVP & COO*

It varies by area. It really does. There's some areas that still have an abundance of work, and we're able to maintain margins that were similar to a few years ago. There's others that have tightened up greatly. Texas market, a few of the other markets, as we've described in the past, continue to be very competitive. So we evaluate each one. Again, we look at it from a cost standpoint when we put our estimate (inaudible), and a fair margin and markup after that.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Okay. And Rick, you touched a lot on -- and seems you've done a lot of research around the California market. I know it's also one of the markets you've been trying to grow over the many years through investment. Do you see yourselves being a more sizable player in that market going forward?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I do. As we look at that and we put together, as Bill said, our business plan and everything else, I was committed to this market. We went into it over a year ago. We spent a few years researching it, doing client development, working on that side of it. I do see that we're starting to receive a few smaller projects that have the potential to springboard us into something else. So again, I see that as a promising market.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Okay. And last question -- I guess this is more for Bill and Betty. I mean, if you look at the comments you made, Bill, that the second half looks promising, should we assume that the earnings power we saw in the second quarter is kind of sustainable going forward based on what you're seeing?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well, we certainly expect the earnings power to be sustainable going into the second half. Whether it will get better or not -- as you know, we don't project revenues or earnings going forward, but we do expect a strong market in the second half in both segments.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Okay, great. And congratulations on a good job in T&D this time. Thank you, guys.

Operator

Bobby Burleson, Canaccord.

Bobby Burleson - *Canaccord Genuity, Inc. - Analyst*

Yes, good morning. Just curious, you guys talked a decent amount about execution as part of the positive driver here in the prepared comments, and I'm wondering, are there some specifics on where execution's improved or kind of metrics around how that actually helps drive the organic growth?

Rick Swartz - *MYR Group, Inc - SVP & COO*

We never get into the details of where we've had improvements project by project. Again, we have a team together of managers that move project to project. We share best practices across all our organizations so everybody can learn from both the positive and not have the negative reoccur. We spend a great amount of time as an organization trying to push that forward and hopefully springboard that into good operating results. But as far as area by area or project by project, we don't divulge that.

Bobby Burleson - *Canaccord Genuity, Inc. - Analyst*

Okay. And then you mentioned this Edison Electric Institute's CapEx outlook increasing 16% for 2016, 9% for 2017. Can you give us a sense of the historic kind of correlation between what they see and kind of when you see it in your business? So if there is this more positive outlook that they have, is that something that directly translates into what you guys are able to kind of bid on and close?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I think over the last few years in general, I would say they've showed increased spending. It's something that they continue to re-forecast every year, and that's available to people like ourselves, people on this call also. It's something that we use as one gauge. It's not that only gauge.

A lot of our time is spent in our customer's offices, whether it's the operating groups, there are marketing groups, Bill and Betty in those meetings trying to find out what our customers are spending. So we use that as one gauge, but not the only gauge we operate by.

Bill Koertner - *MYR Group, Inc. - President & CEO*

And also they have the market greater spend, but there are definitely more competitors out there than there were five, six years ago, and that's what's putting pressure on margins for us and others. The real boom in T&D spending in the 2011 through 2014 period brought a lot of competitors. So the overall spend is greater by utility, but there's also more competitors chasing that work.

Bobby Burleson - *Canaccord Genuity, Inc. - Analyst*

Okay, great. And so you've gotten to backlog that's highest level since, I think, December 2012, you said. If we continue to see this backlog growth, can we get into kind of a more 2011 environment in terms of maybe what it might look like for margins from a competitive standpoint? Or is there sort of a permanent shift that's happened in the competitive dynamic that, even with backlog growing to higher and higher levels, precludes an improvement or a lessening of competition?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I'll start and then I'll let Bill add to it. As far as backlog goes, we're always trying to build our backlog. But again, a focus on cost and margin we're receiving the work at, it would be easy to chase revenue. I could be our backlog quickly if I just ignored the cost component of it. So again, the focus of our organization is disciplined bidding, taking our past experiences and our past track record, our job cost from other jobs, and sharing it as we put estimates together. So we base our estimates on knowing the market, knowing what it takes to build it.

And people out there really haven't built a better mouse trap on some of this work. We've got some of the best equipment, tools, and people in the industry. So when we are substantially underbid, I don't need to spend a great amount of time looking at that in most areas. I just have to move to the next one. So again, I can't control the market as far as how competitors are bidding. Bill?

Bill Koertner - *MYR Group, Inc. - President & CEO*

I wouldn't say we expect to get back to the bidding margins that existed in the 2010, 2013 period. That was some really, really strong bid margins. We're not seeing that today. If the market -- if a bunch of these big jobs come out and flood the market all in the same timeframe, there is that possibility. But I don't think that would be something we would be predicting.

And our focus is on improving our productivity. We can make our labor 2% or 3% more productive, that has a huge leveraging effect on our business. So as we look at our cost structure, we're always challenging, how can we lower our cost, increase labor productivity to be more competitive to, one, win more work, and two, bring more profits to the bottom line?

Bobby Burleson - *Canaccord Genuity, Inc. - Analyst*

Okay, great. And in your bid pipeline and maybe in your backlog, are you seeing a trend in the types of projects that might allow you to drive more efficiency in your labor? In other words, longer-term projects or something that's a little bit more predictable that could enhance that labor efficiency?

Bill Koertner - *MYR Group, Inc. - President & CEO*

No, we're more dependent upon shorter duration, smaller projects. There haven't been a lot of big project awards to anyone, so we're having to be more efficient. But working on smaller projects, by and large.

Bobby Burleson - *Canaccord Genuity, Inc. - Analyst*

Okay, thank you.

Operator

Andrew Wittmann, Robert Baird.

Andrew Wittmann - *Robert W. Baird & Company - Analyst*

Oh, great. So Betty, were the claims and the change orders that you cited in both segments? And can you give us maybe the aggregate amount if you're not willing to give us the singular ones that was referred to earlier?

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

Yes, we don't disclose those specific dollar amounts. But the claims and change orders would be across the two different segments. We referred to a pending claim, and that's specifically in our C&I. But change orders across both segments.

Bill Koertner - *MYR Group, Inc. - President & CEO*

So I think the claim is over $1 million, but I don't want to get into the precise amount of it. And as Betty said, the claim is in C&I business unit, but we have pending change orders in both segments, and they vary in size. Some of those would also be over a million, so it's important that we aggressively pursue getting the money that we're entitled to us from these change orders and claims.

Andrew Wittmann - *Robert W. Baird & Company - Analyst*

Sure, certainly. The 10-Q notes -- and I think this is a couple quarters now that it said this -- but that there's a bias towards more material procurements and subcontracting costs. Which segment is that in, and what is the margin implication of that? And how long do you think that'll be a factor before that's annualized or otherwise ameliorated by having a more full-scope construction content for you guys?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Andy, as you know from prior calls, we don't mark up material and subcontractor costs as much as we would our own company labor and equipment. But in terms of whether there's been a trend in that direction, I don't really think there's been a noticeable trend in terms of the mix of straight labor and equipment contracts versus EPC. There are certainly quarters or period of time where that's a factor, but it's hard to say that there's a trend developing.

Andrew Wittmann - *Robert W. Baird & Company - Analyst*

Okay. All right, we'll leave it there. Thanks, guys.

Operator

Dan Mannes, Avondale.

Dan Mannes - *Avondale Partners - Analyst*

Thanks. Morning, everyone. A couple follow-ups here. First, just, I want to ask about margins again. There was kind of some intriguing commentary in the way you discussed it in your Q. I mean, it sounds like the positives were execution and closeouts. The negatives were claims and other things.

I guess I'm trying to figure out, are some of the negative things that'll linger whereas the positives were one quarter in nature? Or is this just normal ins and outs that you run through every quarter, and maybe I'm over-reading into the disclosure?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I would say the claim on the C&I side isn't something you see every quarter on that side. A lot of the other things that you see are the normal ins and outs that happen every quarter. I wouldn't say there's anomalies there. But again, as Bill said, we've got our work cut out every quarter, every day to collect our change orders and to get what's coming after us, and build long-term relationships along the way.

Dan Mannes - *Avondale Partners - Analyst*

No, that makes a lot of sense. On the regional expansion, given the number of markets you're pushing into, I don't know if you want to talk about maybe where you've see a little bit more success and where you've been able to pick up ground versus maybe where you haven't with maybe a particular look at California where I'm guessing it's been a little slower than originally hoped?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I think I'm a fairly aggressive person when I put together plans, and I sell them to Bill. And I've got high expectations, and I expect the execution to go along with that. So we hire the right people that can hopefully do that. Again, we go into areas like California, I was hoping, myself, that it went a little quicker than it did. But as I've said on previous calls, I hope that our organic expansion areas cover their SG&A by year end as whole. And that's about as much detail as we get on segment-by-segment or operating unit results.

Dan Mannes - *Avondale Partners - Analyst*

Understood. One other area where we're seeing a lot of potential strength and we're just seeing a lot of activity is the wind build-out over the next couple years. Obviously you talked about the large transmission projects and ultimately connecting them, but what about the smaller projects, collector systems, things like that? Are you seeing an uplift in that activity, and is that an area you're focused on?

Rick Swartz - *MYR Group, Inc - SVP & COO*

Yes, it's an area as a company we've been focused on. It took a lull a few years ago. We have seen it come back. We continue to chase those projects, bid those projects, and even execute a few on the wind side. So it is something that we do as a company, and we do see continued growth in that area.

Dan Mannes - *Avondale Partners - Analyst*

Got it, and I just want to close out on cash flow and buy back. Obviously, free cash flow very strong in the quarter. Some of that was working capital. So I don't know if you can cross reference, number one, how much of your buy back activity was maybe accelerated given the strong cash flow in the quarter, and how do we think through buy back activity going forward just in light of that in what maybe is a little bit of a stronger than average free cash flow quarter?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well, the cash flow -- we put together a pricing grid that we gave to our agent to execute. As we explained this to our Board and got their authorization, it was to achieve a certain capital structure. It wasn't predicated on free cash flow

So we had an amount of money. We had a pricing grid. Gave it to our agent, and the agent executed in accordance with that pricing grid. And going forward, as Betty said in her remarks, we have authorized $20 million, which obviously the dollar amount is significantly less than the one we were -- the program we were closing out. And we also indicated that the pace will not be at the same level as what the prior pace was.

Dan Mannes - *Avondale Partners - Analyst*

I guess I'm looking at it from the perspective as, I mean, you only drew down, what, $20 million on your revolver. I think you have $250 million before you expand. So obviously you have a lot of potential dry powder here. You put $20 million up, and in the past, you have a pretty good track record of re-upping it.

So I guess I'm just trying to think through -- from my perspective, it doesn't feel like we're anywhere near the cap of what you can do from a buy back perspective, but I'm just trying to cross reference that with you.

Bill Koertner - *MYR Group, Inc. - President & CEO*

I don't think we're at the limit from a buy back. But remember, we have a three-pronged strategy, and we have some great organic growth opportunities that we're evaluating in addition to those that have already started. And we are continuing to look at some strategic acquisitions.

So we haven't concluded that all of our cash flow is going to go towards buy backs. We have more of a balanced strategy, and we don't want to put all of our eggs in the buy back unless we can't find good organic growth opportunities or good acquisitions.

Dan Mannes - *Avondale Partners - Analyst*

Got it. That's helpful. Thank you very much.

Operator

Noelle Dilts, Stifel.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Hi, thanks. If I look at just kind of parsing out the distribution revenues from T&D, it looks like distribution was down pretty significantly in the first half of the year versus strong growth in 2015. Could you just comment on the trends you're seeing in that market, and how you're thinking about it moving forward?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I continue to see it as a strong market for us. Again, the easiest thing for utilities to change on their own [end] budgets if they have budget constraints somewhere else or they need money somewhere else, it's easy for them to turn on and off the flow on the distribution side. So we see our (inaudible) able to have that flux, and we do see our customers utilizing that.

So it is something that, I do see it as a strong market. But again, how they spend it -- if they have more budget left over, we see it increase. We see them ask us for additional crews. If they have a little less budget or budget constraint somewhere, they pull back on that side. So again, though it's a strong market, it comes down to timing.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Okay, great. And then can you just give us an update on your CapEx needs for this year and even into 2017, and how you're thinking about that from a cash versus capital lease perspective?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I'll start. We continue to evaluate it every quarter. Every month, we look at it. We're not buying what we don't need. We look at our existing equipment and our existing capital expenditures, and we evaluate it monthly, quarterly, and we make adjustments as needed.

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

Exactly. And some of those CapExes have been accomplished through leases this year, and we continue to look at whether it's leasing or purchases. And it depends on -- like Rick said, it depends on the volume later. We continue to challenge that with the equipment that we have trying to hold back. But later on, if we get some of these large transmission projects that there's different needs, we'll increase those capital expenditures.

But you're right. The level that we're at today is at a lower level than historic. But we don't have -- we look to continue that. The volume's down, but I'll pick up again when these large projects come out.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Okay, thank you.

Operator

John Rogers, Davidson.

John Rogers - *D.A. Davidson & Company - Analyst*

Hi, good morning. I just wanted to dig a little bit further. In terms of the cash flow, and you've cited some improved collection and billing procedures, how sustainable is that? Or I guess, how much more is there to pull out of your working capital as a result of that? And presumably if this cycle on the T&D side gets going again, does that cycle start to suck up working capital, especially on some of the larger projects?

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

Yes, when it comes to -- you're right, this quarter was a nice improvement in the working capital. Some of those dollars are relating to just timing and volume. But I will say that we had a very nice improvement just as it relates to overall focus and processes that have been just overall addressed.

We are at -- when we look at it from a day sales outstanding perspective just as far as a measurement, we are at a low level in comparison to our history. Also, actually at a low level even in comparison to our peers when we look at that. So how much is there as far as improvement? I can't say that there's as big of an improvement that you can see coming forward because we've made it there, but we always continue to focus on it constantly.

And it'll also depend upon the mix of our various different clients. Every situation, every contract that we enter into, it depends on those specific terms that we might agree to upfront that might not allow us to bill as timely as another. But constantly review and challenge that, so there's definitely ebbs and flows with that. But it was a nice improvement with everybody across the Company participating in the improvement we saw this past quarter or so.

Bill Koertner - *MYR Group, Inc. - President & CEO*

John, I would say one or two quarters doesn't really make for a trend. We did have a couple of contracts in the first half of the year that we had to kind of clean collections. And there were some complications in the billing, and we were successful in turning those billings and under-billings into cash. So I hope -- that's certainly our goal to maintain where we are and get even better at cash flow management. But it's highly dependent upon the book of business that we enter into from this point forward.

John Rogers - *D.A. Davidson & Company - Analyst*

Okay. So does that suggest, on a long-term basis -- I'm not asking for specific guidance -- but on a long-term basis, that cash flow should align with earnings, especially given, Rick, your comments on capital spending needs?

Rick Swartz - *MYR Group, Inc - SVP & COO*

Again, it depends on the contracts we're securing. We challenge those terms and conditions, whether it's payments terms, whether it's retention, timing of retention, whether you can do it partially through a project. We challenge it all, but we have certain customers that, as you enter into a contract, have different requirements than someone else.

So we evaluate it on every project, and then the timing awards and which awards we receive can all play into that. So I'm not not trying to answer your question, it's just a very difficult thing to project.

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

Yes, agree.

John Rogers - *D.A. Davidson & Company - Analyst*

All right. And on the larger projects, I mean, if that market comes back, structurally, do they take more working capital to support, or do you believe that the market's such that it can be stable?

Rick Swartz - *MYR Group, Inc - SVP & COO*

From my standpoint, overall I believe it can be stable if we pick up the right contracts. When I look at past ones, we've had some very favorable terms to us on payment. We've also had some that we pushed back, but entered into them not in a way that I would say adversely affected us, but it did affect our cash flow.

John Rogers - *D.A. Davidson & Company - Analyst*

Okay. Well, great job on the process. Thank you.

Operator

(Operator instructions)

William Bremer, Maxim Group.

William Bremer - *Maxim Group - Analyst*

Yes, thank you for taking the follow-up. I've noticed the higher elevation of SG&A, and I realize the latest acquisitions. But I guess the question I have here is, are you seeing any inflation in terms of labor across your platform at this time?

Rick Swartz - *MYR Group, Inc - SVP & COO*

I wouldn't say we see any we haven't planned on or discussed. We do a very good job of budgeting and trying to forecast tight markets and put that into our bids or our estimates. And even on the overhead side, we try to look at it area by area across the country. And I wouldn't say we see anything. Part of that is our organic growth where you see the increase on the SG&A side. And when you don't have the revenue to support that from day one, it does affect the percentage and the dollars.

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

Yes, overall dollars.

William Bremer - *Maxim Group - Analyst*

And Betty, corporate expenses, unallocated expenses, were there any one-time charges this quarter, or is that sort of a decent run rate to use going forward?

Betty Johnson - *MYR Group, Inc - SVP, CFO & Treasurer*

No unusual one-time adjustments during the quarter outside of what we point out for the acquisition and organic growth related cost. Nothing like last quarter that we pointed out.

William Bremer - *Maxim Group - Analyst*

Okay, great. Thank you.

Operator

Thank you. I'm showing no further questions at this time.

Bill Koertner *- MYR Group, Inc. - President & CEO*

Okay. Well, I'd like to thank everyone for participating on today's call. As always, my biggest thanks goes to our staff. We got a great group of employees that work really hard on behalf of shareholders, and we certainly are dependent upon them, and we're also dependent upon continued support from our shareholder base. So I don't have anything further. We look forward to talking to you folks next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.