

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2020
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

(State or other jurisdiction of
incorporation or organization)

36-3158643

(I.R.S. Employer Identification No.)

1701 Golf Road, Suite 3-1012

Rolling Meadows, IL

(Address of principal executive offices)

60008

(Zip Code)

(847) 290-1891

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	MYRG	The Nasdaq Stock Market, LLC (Nasdaq Global Market)

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 24, 2020, there were 16,708,925 outstanding shares of the registrant's \$0.01 par value common stock.

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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)	June 30, 2020	December 31, 2019
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,991	\$ 12,397
Accounts receivable, net of allowances of \$3,186 and \$3,364, respectively	341,514	388,479
Contract assets, net of allowances of \$393 and \$147, respectively	224,275	217,109
Current portion of receivable for insurance claims in excess of deductibles	9,129	6,415
Refundable income taxes	—	1,973
Other current assets	10,007	12,811
Total current assets	594,916	639,184
Property and equipment, net of accumulated depreciation of \$284,385 and \$272,865, respectively	181,711	185,344
Operating lease right-of-use assets	24,555	22,958
Goodwill	66,051	66,060
Intangible assets, net of accumulated amortization of \$13,311 and \$10,880, respectively	52,486	54,940
Receivable for insurance claims in excess of deductibles	23,328	30,976
Investment in joint ventures	3,186	4,722
Other assets	3,853	3,687
Total assets	<u>\$ 950,086</u>	<u>\$ 1,007,871</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 7,186	\$ 8,737
Current portion of operating lease obligations	6,864	6,205
Current portion of finance lease obligations	893	1,135
Accounts payable	154,902	192,107
Contract liabilities	128,702	105,486
Current portion of accrued self-insurance	20,005	18,780
Other current liabilities	84,982	64,364
Total current liabilities	403,534	396,814
Deferred income tax liabilities	21,515	20,945
Long-term debt	74,782	157,087
Accrued self-insurance	40,946	48,024
Operating lease obligations, net of current maturities	17,788	16,884
Finance lease obligations, net of current maturities	-	338
Other liabilities	2,071	3,304
Total liabilities	560,636	643,396
Commitments and contingencies		
Stockholders' equity:		
Preferred stock—\$0.01 par value per share; 4,000,000 authorized shares; none issued and outstanding at June 30, 2020 and December 31, 2019	—	—
Common stock—\$0.01 par value per share; 100,000,000 authorized shares; 16,708,559 and 16,648,616 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	167	166
Additional paid-in capital	154,594	152,532
Accumulated other comprehensive loss	(398)	(446)
Retained earnings	235,083	212,219
Total stockholders' equity attributable to MYR Group Inc.	389,446	364,471
Noncontrolling interest	4	4
Total stockholders' equity	389,450	364,475
Total liabilities and stockholders' equity	<u>\$ 950,086</u>	<u>\$ 1,007,871</u>

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

MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Contract revenues	\$ 513,051	\$ 448,776	\$ 1,031,521	\$ 916,870
Contract costs	451,746	405,613	908,584	830,831
Gross profit	61,305	43,163	122,937	86,039
Selling, general and administrative expenses	41,199	33,944	86,245	66,931
Amortization of intangible assets	1,203	735	2,431	1,469
Gain on sale of property and equipment	(439)	(926)	(1,489)	(1,397)
Income from operations	19,342	9,410	35,750	19,036
Other income (expense):				
Interest income	4	—	6	—
Interest expense	(1,315)	(1,168)	(2,828)	(2,373)
Other income (expense), net	321	582	(574)	1,328
Income before provision for income taxes	18,352	8,824	32,354	17,991
Income tax expense	4,967	2,466	9,037	5,013
Net income	13,385	6,358	23,317	12,978
Less: net loss attributable to noncontrolling interest	—	(849)	—	(1,582)
Net income attributable to MYR Group Inc.	\$ 13,385	\$ 7,207	\$ 23,317	\$ 14,560
Income per common share attributable to MYR Group Inc.:				
—Basic	\$ 0.80	\$ 0.43	\$ 1.40	\$ 0.88
—Diluted	\$ 0.80	\$ 0.43	\$ 1.39	\$ 0.87
Weighted average number of common shares and potential common shares outstanding:				
—Basic	16,685	16,600	16,656	16,557
—Diluted	16,765	16,704	16,751	16,682
Net income	\$ 13,385	\$ 6,358	\$ 23,317	\$ 12,978
Other comprehensive income (loss):				
Foreign currency translation adjustment	(39)	(123)	48	(200)
Other comprehensive income (loss)	(39)	(123)	48	(200)
Total comprehensive income	13,346	6,235	23,365	12,778
Less: net loss attributable to noncontrolling interest	—	(849)	—	(1,582)
Total comprehensive income attributable to MYR Group Inc.	\$ 13,346	\$ 7,084	\$ 23,365	\$ 14,360

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

MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Preferred Stock	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	MYR Group Inc. Stockholders' Equity	Noncontrolling Interest	Total
	Shares	Amount							
Balance at December 31, 2018	—	16,565	\$ 165	\$ 148,276	\$ (193)	\$ 174,736	\$ 322,984	\$ 1,480	\$ 324,464
Net income (loss)	—	—	—	—	—	7,353	7,353	(733)	6,620
Stock issued under compensation plans, net	—	68	—	282	—	—	282	—	282
Stock-based compensation expense	—	—	—	951	—	—	951	—	951
Shares repurchased	—	(23)	—	(571)	—	(207)	(778)	—	(778)
Other comprehensive loss	—	—	—	—	(77)	—	(77)	—	(77)
Stock issued - other	—	—	12	—	—	—	12	—	12
Balance at March 31, 2019	—	16,610	\$ 177	\$ 148,938	\$ (270)	\$ 181,882	\$ 330,727	\$ 747	\$ 331,474
Net income (loss)	—	—	—	—	—	7,207	7,207	(849)	6,358
Stock issued under compensation plans, net	—	33	1	1	—	—	2	—	2
Stock-based compensation expense	—	—	—	1,202	—	—	1,202	—	1,202
Other comprehensive income	—	—	—	—	(123)	—	(123)	—	(123)
Stock issued - other	—	1	(12)	36	—	—	24	—	24
Balance at June 30, 2019	\$ —	\$ 16,644	\$ 166	\$ 150,177	\$ (393)	\$ 189,089	\$ 339,039	\$ (102)	\$ 338,937
Balance at December 31, 2019	—	16,649	\$ 166	\$ 152,532	\$ (446)	\$ 212,219	\$ 364,471	\$ 4	\$ 364,475
Net income	—	—	—	—	—	9,932	9,932	—	9,932
Adjustment to adopt ASC 326	—	—	—	—	—	(268)	(268)	—	(268)
Stock issued under compensation plans, net	—	55	—	82	—	—	82	—	82
Stock-based compensation expense	—	—	—	1,080	—	—	1,080	—	1,080
Shares repurchased	—	(20)	—	(241)	—	(185)	(426)	—	(426)
Other comprehensive income	—	—	—	—	87	—	87	—	87
Stock issued - other	—	1	—	24	—	—	24	—	24
Balance at March 31, 2020	—	16,685	\$ 166	\$ 153,477	\$ (359)	\$ 221,698	\$ 374,982	\$ 4	\$ 374,986
Net income	—	—	—	—	—	13,385	13,385	—	13,385
Stock issued under compensation plans, net	—	23	1	—	—	—	1	—	1
Stock-based compensation expense	—	—	—	1,093	—	—	1,093	—	1,093
Other comprehensive income	—	—	—	—	(39)	—	(39)	—	(39)
Stock issued - other	—	1	—	24	—	—	24	—	24
Balance at June 30, 2020	\$ —	\$ 16,709	\$ 167	\$ 154,594	\$ (398)	\$ 235,083	\$ 389,446	\$ 4	\$ 389,450

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

MYR GROUP INC.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Six months ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 23,317	\$ 12,978
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	21,324	19,714
Amortization of intangible assets	2,431	1,469
Stock-based compensation expense	2,173	2,153
Deferred income taxes	537	23
Gain on sale of property and equipment	(1,489)	(1,397)
Other non-cash items	267	783
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	46,353	(24,468)
Contract assets, net	(7,658)	(14,218)
Receivable for insurance claims in excess of deductibles	4,934	568
Other assets	7,198	(3,552)
Accounts payable	(38,342)	27,242
Contract liabilities	23,271	(5,035)
Accrued self insurance	(5,843)	(692)
Other liabilities	19,450	(8,169)
Net cash flows provided by operating activities	97,923	7,399
Cash flows from investing activities:		
Proceeds from sale of property and equipment	1,633	1,658
Purchases of property and equipment	(16,938)	(27,961)
Net cash flows used in investing activities	(15,305)	(26,303)
Cash flows from financing activities:		
Net repayments under revolving lines of credit	(70,423)	(5,896)
Borrowings under equipment notes	—	24,038
Payment of principal obligations under equipment notes	(13,433)	(1,455)
Payment of principal obligations under finance leases	(616)	(575)
Proceeds from exercise of stock options	82	284
Repurchase of common shares	(425)	(778)
Other financing activities	49	36
Net cash flows provided by (used in) financing activities	(84,766)	15,654
Effect of exchange rate changes on cash	(258)	98
Net decrease in cash and cash equivalents	(2,406)	(3,152)
Cash and cash equivalents:		
Beginning of period	12,397	7,507
End of period	\$ 9,991	\$ 4,355

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

MYR GROUP INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 and is currently conducting operations through 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 Energy Services, Inc., a Delaware corporation; E.S. Boulous Company, a Delaware corporation; High Country Line Construction, Inc., a Nevada corporation; Sturgeon Electric California, LLC, a Delaware limited liability company; GSW Integrated Services, LLC, a Delaware limited liability company; Huen Electric, Inc., a Delaware corporation; CSI Electrical Contractors, Inc., a Delaware corporation; MYR Transmission Services Canada, Ltd., a British Columbia corporation; Northern Transmission Services, Ltd., a British Columbia corporation and Western Pacific Enterprises 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. T&D 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. C&I customers include general contractors, commercial and industrial facility owners, government agencies and developers. C&I provides a broad range of services, which include the design, installation, maintenance and repair of commercial and industrial wiring, the installation of traffic networks and the installation of bridge, roadway and tunnel lighting.

The current COVID-19 pandemic has had a significant impact on the global economy, including the US and Canadian economies, during the first and second quarters of 2020. As the situation continues to evolve, the Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it will impact our customers, subcontractors, suppliers, vendors and employees. The COVID-19 pandemic caused a slowdown of our projects due to specific state, local, municipal and customer mandated stay-at-home orders and new project requirements that were established to protect construction workers and the general public, most of which impacted our C&I segment in the second quarter of 2020. Although the majority of stay-at-home orders were phased out at the end of the second quarter, we are still experiencing impacts associated with the COVID-19 project specific protocols. We expect the project specific requirements to remain in place which will continue to impact project schedules and workflow going forward.

The Company is unable to predict the ultimate impact that COVID-19 will have on our business, employees, liquidity, financial condition, results of operations and cash flows. Most of the Company’s operations are considered critical and essential businesses, making our projects generally exempt from stay-at-home or similar orders in certain parts of the United States and western Canada. However, if this pandemic persists for a prolonged period of time our business could be more significantly impacted as a result of prolonged unfavorable economic conditions. In addition, in response to the pandemic and related mitigation measures, the Company began implementing changes in March 2020 in an effort to protect our employees and customers, and to support appropriate health and safety protocols, including implementing remote, alternative and flexible work arrangements, where possible. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact our business. The key estimates that could potentially be impacted include estimates of costs to complete contracts, the recoverability of goodwill and intangibles and allowance for doubtful accounts.

Basis of Presentation

Interim Consolidated Financial Information

The accompanying unaudited consolidated financial statements of the Company were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting pursuant to the rules and regulations of the Securities and Exchange Commission ("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, stockholders' equity and cash flows with respect to the interim consolidated financial statements, have been included. Certain reclassifications were made to prior year amounts to conform to the current year presentation. The consolidated balance sheet as of December 31, 2019 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, 2019, included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 4, 2020 (the "2019 Annual Report").

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. Equity accounts are translated at historical rates. 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 short-term monetary assets and liabilities, and ineffective long-term monetary assets and liabilities are recorded in the "other income, net" line on the consolidated statements of operations. Foreign currency gains, recorded in other income, net, for the six months ended June 30, 2020 were not significant. Foreign currency gains, recorded in other income, net, for the six months ended June 30, 2019 were \$0.1 million. Effective foreign currency transaction gains and losses, arising primarily from long-term monetary assets and liabilities, are recorded in the foreign currency translation adjustment line on the consolidated statements of comprehensive income.

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, the 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 estimates of costs to complete contracts, pending change orders and claims, shared savings, insurance reserves, income tax reserves, estimates surrounding stock-based compensation, the recoverability of goodwill and intangibles and allowance for doubtful accounts. The Company estimates a cost accrual every quarter that represents costs incurred but not invoiced for services performed or goods delivered during the period, and estimates revenue from the contract cost portion of these accruals based on current gross margin rates to be consistent with its cost method of revenue recognition.

As of June 30, 2020 and 2019, the Company had recognized revenues of \$40.1 million and \$21.4 million, respectively, related to significant change orders and/or claims that had been included as contract price adjustments on certain contracts, some of which are multi-year projects. These change orders and/or claims are in the process of being negotiated in the normal course of business, and a portion of these recognized revenues had been included in multiple periods.

The cost-to-cost method of accounting requires the Company to make estimates about the expected revenue and gross profit on each of its contracts in process. During the three months ended June 30, 2020, changes in estimates pertaining to certain projects increased consolidated gross margin by 0.2%, which resulted in increases in operating income of \$1.2 million, net income attributable to MYR Group Inc. of \$0.9 million and diluted earnings per common share attributable to MYR Group Inc. of \$0.05. During the six months ended June 30, 2020, changes in estimates pertaining to certain projects decreased consolidated gross margin by 0.1%, which resulted in decreases in operating income of \$0.7 million, net income attributable to MYR Group Inc. of \$0.5 million and diluted earnings per common share attributable to MYR Group Inc. of \$0.03.

During the three months ended June 30, 2019, changes in estimates pertaining to certain projects decreased consolidated gross margin by 0.9%, which resulted in decreases in operating income of \$4.2 million, net income attributable to MYR Group Inc. of \$1.9 million and diluted earnings per common share attributable to MYR Group Inc. of \$0.11. During the six months ended June 30, 2019, changes in estimates pertaining to certain projects decreased consolidated gross margin by 1.0%, which resulted in decreases in operating income of \$9.1 million, net income attributable to MYR Group Inc. of \$4.2 million and diluted earnings per common share attributable to MYR Group Inc. of \$0.25.

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 its consolidated financial statements.

Recently Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill, through the elimination of Step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The Company adopted this ASU on a prospective basis in January 2020 and there was no effect on the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which introduced an expected credit loss methodology for the measurement and recognition of credit losses on most financial instruments, including trade receivables and off-balance sheet credit exposures. Under this guidance, an entity is required to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of losses. This ASU also requires disclosure of information regarding how a company developed its allowance, including changes in the factors that influenced management’s estimate of expected credit losses and the reasons for those changes. On January 1, 2020, the Company adopted this ASU resulting in a \$0.3 million cumulative-effect adjustment to retained earnings associated with the increase in the Company’s allowance for doubtful accounts. Additionally, in connection with the adoption of this ASU the Company adjusted its presentation for allowance for doubtful accounts associated with unbilled revenue, which represents a portion of the Company’s contract assets, and were previously classified as accounts receivable net of allowances. Total allowance for doubtful accounts associated with contract assets as of June 30, 2020 and at the time of adopting this ASU were \$0.4 million. The Company’s consolidated balance sheet as of December 31, 2019 and consolidated statements of cash flows for the year ended December 31, 2019 have not been adjusted for this change in treatment of allowance for doubtful accounts associated with unbilled revenue. See Note 3—Contract Assets and Liabilities for further information related to the Company’s contract assets.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for Level 1, Level 2 and Level 3 instruments in the fair value hierarchy. The Company adopted this ASU in January 2020 and there was no effect on the consolidated financial statements or disclosures.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes, eliminates certain exceptions within ASC 740, Income Taxes, and clarifies certain aspects of the current guidance to promote consistent application among reporting entities. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. Upon adoption, the Company must apply certain aspects of this standard retrospectively for all periods presented while other aspects are applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company is evaluating the impact this update will have on its financial statements.

2. Acquisition

CSI Electrical Contractors, Inc.

On July 15, 2019, the Company completed the acquisition of substantially all the assets of CSI Electrical Contractors, Inc. (“CSI”), an electrical contracting firm based in California. CSI provides services to a broad array of end markets under the Company’s C&I segment. The total consideration, after net asset adjustments of approximately \$1.0 million, was \$80.7 million, which was funded through borrowings under the Company’s credit facility. The Company finalized the purchase price accounting relating to the acquisition of CSI in 2019.

The purchase agreement also includes contingent consideration provisions for margin guarantee adjustments based upon contract performance subsequent to the acquisition. The contracts were valued at fair value at the acquisition date, causing no margin guarantee estimate or adjustments for fair value. Changes in contract estimates, such as modified costs to complete or change order recognition, will result in changes to these margin guarantee estimates. Changes in contingent consideration, subsequent to the acquisition, related to the margin guarantee adjustments on contracts of approximately \$0.4 million were recorded in other income for the three months ended June 30, 2020 and \$0.6 million were recorded in other expense for six months ended June 30, 2020. Future margin guarantee adjustments, if any, are expected to be recognized through 2020. The Company could also be required to make compensation payments contingent on the successful achievement of certain performance targets and continued employment of certain key executives of CSI. These payments are recognized as compensation expense on the Company’s consolidated statements of operations as incurred. For the three and six months ended June 30, 2020, the Company recognized \$0.7 million and \$1.1 million, respectively, of compensation expense associated with these contingent payments.

3. Contract Assets and Liabilities

Contracts with customers usually stipulate the timing of payment, which is defined by the terms found within the various contracts under which work was performed during the period. Therefore, contract assets and liabilities are created when the timing of costs incurred on work performed does not coincide with the billing terms, which frequently include retention provisions contained in each contract.

The Company’s consolidated balance sheets present contract assets, which contain unbilled revenue and contract retainages associated with contract work that has been completed and billed but not paid by customers, pursuant to retainage provisions, that are generally due once the job is completed and approved. The allowance for doubtful accounts associated with contract assets was \$0.4 million as of June 30, 2020 and \$0.1 million as of December 31, 2019.

Contract assets consisted of the following:

<u>(in thousands)</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>Change</u>
Unbilled revenue, net	\$ 135,289	\$ 126,087	\$ 9,202
Contract retainages, net	88,986	91,022	(2,036)
Contract assets, net	<u>\$ 224,275</u>	<u>\$ 217,109</u>	<u>\$ 7,166</u>

The Company's consolidated balance sheets present contract liabilities which contain deferred revenue and an accrual for contracts in a loss provision.

Contract liabilities consisted of the following:

<u>(in thousands)</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>Change</u>
Deferred revenue	\$ 126,446	\$ 102,673	\$ 23,773
Accrued loss provision	2,256	2,813	(557)
Contract liabilities	<u>\$ 128,702</u>	<u>\$ 105,486</u>	<u>\$ 23,216</u>

The following table provides information about contract assets and contract liabilities from contracts with customers:

<u>(in thousands)</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>Change</u>
Contract assets, net	\$ 224,275	\$ 217,109	\$ 7,166
Contract liabilities	(128,702)	(105,486)	(23,216)
Net contract assets (liabilities)	<u>\$ 95,573</u>	<u>\$ 111,623</u>	<u>\$ (16,050)</u>

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing of the Company's billings in relation to its performance of work. The amounts of revenue recognized in the period that were included in the opening contract liability balances were \$16.9 million and \$43.0 million for the three and six months ended June 30, 2020, respectively. The amounts of revenue recognized in the period that were included in the opening contract liability balances were \$4.4 million and \$32.0 million for the three and six months ended June 30, 2019, respectively. This revenue consists primarily of work performed on previous billings to customers.

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

<u>(in thousands)</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Costs and estimated earnings on uncompleted contracts	\$ 3,547,242	\$ 3,532,886
Less: billings to date	3,538,399	3,509,472
	<u>\$ 8,843</u>	<u>\$ 23,414</u>

The net asset position for contracts in process is included within the contract asset and contract liability in the accompanying consolidated balance sheets as follows:

(in thousands)	June 30, 2020	December 31, 2019
Unbilled revenue	\$ 135,289	\$ 126,087
Deferred revenue	(126,446)	(102,673)
	<u>\$ 8,843</u>	<u>\$ 23,414</u>

4. Lease Obligations

From time to time, the Company enters into non-cancelable leases for some of our facility, vehicle and equipment needs. These leases allow the Company to conserve cash by paying a monthly lease rental fee for the use of facilities, vehicles and equipment rather than purchasing them. The Company's leases have remaining terms ranging from one to six years, some of which may include options to extend the leases for up to five years, and some of which may include options to terminate the leases within one year. Currently, all the Company's leases contain fixed payment terms. The Company may decide to cancel or terminate a lease before the end of its term, in which case we are typically liable to the lessor for the remaining lease payments under the term of the lease. Additionally, all of Company's month-to-month leases are cancelable, by the Company or the lessor, at any time and are not included in our right-of-use asset or liability. At June 30, 2020, the Company had several leases with residual value guarantees, due to the acquisition of CSI. Typically, the Company has purchase options on the equipment underlying its long-term leases and many of its short-term rental arrangements. The Company may exercise some of these purchase options when the need for equipment is on-going and the purchase option price is attractive. Leases are accounted for as operating or finance leases, depending on the terms of the lease.

The following is a summary of the lease-related assets and liabilities recorded:

(in thousands)	Classification on the Consolidated Balance Sheet	June 30, 2020	December 31, 2019
Assets			
Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 24,555	\$ 22,958
Finance lease right-of-use assets	Property and equipment, net of accumulated depreciation	934	1,478
Total right-of-use lease assets		<u>\$ 25,489</u>	<u>\$ 24,436</u>
Liabilities			
Current			
Operating lease obligations	Current portion of operating lease obligations	\$ 6,864	\$ 6,205
Finance lease obligations	Current portion of finance lease obligations	893	1,135
Total current obligations		<u>7,757</u>	<u>7,340</u>
Non-current			
Operating lease obligations	Operating lease obligations, net of current maturities	17,788	16,884
Finance lease obligations	Finance lease obligations, net of current maturities	—	338
Total non-current obligations		<u>17,788</u>	<u>17,222</u>
Total lease obligations		<u>\$ 25,545</u>	<u>\$ 24,562</u>

The following is a summary of the lease terms and discount rates:

	June 30, 2020	December 31, 2019
Weighted-average remaining lease term - finance leases	0.9 years	1.4 years
Weighted-average remaining lease term - operating leases	3.73 years	3.9 years
Weighted-average discount rate - finance leases	2.5%	2.5%
Weighted-average discount rate - operating leases	3.9%	3.8%

The following is a summary of certain information related to the lease costs for finance and operating leases:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Lease cost:				
Finance lease cost:				
Amortization of right-of-use assets	\$ 247	\$ 274	\$ 497	\$ 547
Interest on lease liabilities	9	17	20	37
Operating lease cost	2,296	1,472	4,563	2,929
Short-term lease cost	—	—	—	15
Variable lease costs	76	67	153	132
Total lease cost	<u>\$ 2,628</u>	<u>\$ 1,830</u>	<u>\$ 5,233</u>	<u>\$ 3,660</u>

The following is a summary of other information and supplemental cash flow information related to finance and operating leases:

(in thousands)	Six months ended June 30,	
	2020	2019
Other information:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 4,335	\$ 2,943
Right-of-use asset obtained in exchange for new operating lease obligations	\$ 5,111	\$ 1,234

The future undiscounted minimum lease payments, as reconciled to the discounted minimum lease obligation indicated on the Company's consolidated balance sheets, under financial leases, less interest, and under operating leases, less imputed interest, as of June 30, 2020 were as follows:

<u>(in thousands)</u>	<u>Finance Lease Obligations</u>	<u>Operating Lease Obligations</u>	<u>Total Lease Obligations</u>
Remainder of 2020	\$ 578	\$ 4,661	\$ 5,239
2021	330	8,256	8,586
2022	—	6,909	6,909
2023	—	5,003	5,003
2024	—	2,471	2,471
2025	—	973	973
Thereafter	—	795	795
Total minimum lease payments	908	29,068	29,976
Financing component	(15)	(4,416)	(4,431)
Net present value of minimum lease payments	893	24,652	25,545
Less: current portion of finance and operating lease obligations	(893)	(6,864)	(7,757)
Long-term finance and operating lease obligations	<u>\$ —</u>	<u>\$ 17,788</u>	<u>\$ 17,788</u>

The financing component for finance lease obligations represents the interest component of finance leases that will be recognized as interest expense in future periods. The financing component for operating lease obligations represents the effect of discounting the lease payments to their present value.

Certain subsidiaries of the Company have operating leases for facilities from third party companies that are owned, in whole or part, by employees of the subsidiaries. The terms and rental rates of these leases are at market rental rates. As of June 30, 2020, the minimum lease payments required under these leases totaled \$3.9 million, which are due over the next 4.0 years.

5. 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 June 30, 2020 and December 31, 2019, the Company determined that the carrying value of cash and cash equivalents approximated fair value based on Level 1 inputs. As of June 30, 2020, the fair values of the Company's long-term debt and finance lease obligations were based on Level 2 inputs. As of December 31, 2019, the fair values of the Company's long-term debt and finance lease obligations were based on Level 2 inputs. The Company's long-term debt was based on variable and fixed interest rates at June 30, 2020 and December 31, 2019, for new issues with similar remaining maturities, and approximated carrying value. In addition, based on borrowing rates currently available to the Company for borrowings with similar terms, the carrying values of the Company's finance lease obligations also approximated fair value.

6. Debt

The table below reflects the Company's total debt, including borrowings under its credit agreement and master loan agreements for equipment notes:

(dollar amounts in thousands)	Inception Date	Stated Interest Rate (per annum)	Payment Frequency	Term (years)	Outstanding Balance as of June 30, 2020	Outstanding Balance as of December 31, 2019
<i>Credit Agreement</i>						
Revolving loans	9/13/2019	Variable	Variable	5	\$ 33,397	\$ 103,820
<i>Equipment Notes</i>						
Equipment Note 1	9/28/2018	4.16%	Semi-annual	5	—	10,643
Equipment Note 2	9/28/2018	4.23%	Semi-annual	7	10,643	11,200
Equipment Note 3	12/31/2018	3.97%	Semi-annual	5	1,779	1,953
Equipment Note 4	12/31/2018	4.02%	Semi-annual	7	2,003	2,108
Equipment Note 5	12/31/2018	4.01%	Semi-annual	7	1,649	1,751
Equipment Note 6	6/25/2019	2.89%	Semi-annual	7	13,596	14,286
Equipment Note 7	6/24/2019	3.09%	Semi-annual	5	8,359	9,033
Equipment Note 8	12/27/2019	2.75%	Semi-annual	5	6,008	6,496
Equipment Note 9	12/24/2019	3.01%	Semi-annual	7	4,534	4,534
					48,571	62,004
Total debt					81,968	165,824
Less: current portion of long-term debt					(7,186)	(8,737)
Long-term debt					\$ 74,782	\$ 157,087

Credit Agreement

On September 13, 2019, the Company entered into a five-year amended and restated credit agreement (the "Credit Agreement") with a syndicate of banks led by JPMorgan Chase Bank, N.A. and Bank of America, N.A., that provides for a \$375 million facility (the "Facility"), not to exceed three times Consolidated EBITDA (as defined in the Credit Agreement) less Consolidated Total Indebtedness (as defined in the Credit Agreement), which can be used for revolving loans and up to \$150 million may be used for letters of credit. The Facility also allows for revolving loans and letters of credit in Canadian dollars and other currencies, up to the U.S. dollar equivalent of \$75 million. The Company has an expansion option to increase the commitments under the Facility or enter into incremental term loans, subject to certain conditions, by up to an additional \$200 million upon receipt of additional commitments from new or existing lenders. Subject to certain exceptions, the Facility is secured by substantially all of the assets of the Company and its domestic subsidiaries, and by a pledge of substantially all of the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of the direct foreign subsidiaries of the Company. Additionally, subject to certain exceptions, the Company's domestic subsidiaries also guarantee the repayment of all amounts due under the Credit Agreement. If an event of default occurs and is continuing, on the terms and subject to the conditions set forth in the Credit Agreement, amounts outstanding under the Facility may be accelerated and may become or be declared immediately due and payable. Borrowings under the Credit Agreement are used for refinancing existing indebtedness, working capital, capital expenditures, acquisitions and other general corporate purposes.

Amounts borrowed under the Credit Agreement bear interest, at the Company's option, at a rate equal to either (1) the Alternate Base Rate (as defined in the Credit Agreement), plus an applicable margin ranging from 0.00% to 0.75%; or (2) Adjusted LIBO Rate (as defined in the Credit Agreement) plus an applicable margin ranging from 1.00% to 1.75%. The applicable margin is determined based on the Company's consolidated leverage ratio (the "Leverage Ratio") which is defined in the Credit Agreement as Consolidated Total Indebtedness (as defined in the Credit Agreement) divided by Consolidated EBITDA (as defined in the Credit Agreement). Letters of credit issued under the Facility are subject to a letter of credit fee of 1.00% to 1.75% for non-performance letters of credit or 0.50% to 0.875%

for performance letters of credit, based on the Company's consolidated Leverage Ratio. The Company is subject to a commitment fee of 0.15% to 0.25%, based on the Company's consolidated Leverage Ratio, on any unused portion of the Facility. The Credit Agreement restricts certain types of payments when the Company's consolidated Leverage Ratio exceeds 2.50 or the Company's consolidated Liquidity (as defined in the Credit Agreement) is less than \$50 million. The weighted average interest rate on borrowings outstanding on the Facility for the six months ended June 30, 2020 was 2.44% per annum.

Under the Credit Agreement, the Company is subject to certain financial covenants and must maintain a maximum consolidated Leverage Ratio of 3.0 and a minimum interest coverage ratio of 3.0, which is defined in the Credit Agreement as Consolidated EBITDA (as defined in the Credit Agreement) divided by interest expense (as defined in the Credit Agreement). The Credit Agreement also contains covenants including limitations on asset sales, investments, indebtedness and liens. The Company was in compliance with all of its financial covenants under the Credit Agreement as of June 30, 2020.

As of June 30, 2020, the Company had letters of credit outstanding under the Facility of approximately \$10.5 million, including \$10.0 million related to the Company's payment obligation under its insurance programs and approximately \$0.5 million related to contract performance obligations.

As of December 31, 2019, the Company had letters of credit outstanding under the Facility of approximately \$10.6 million, including \$10.0 million related to the Company's payment obligation under its insurance programs and approximately \$0.6 million related to contract performance obligations.

The Company had remaining deferred debt issuance costs totaling \$1.3 million as of June 30, 2020, related to the line of credit. As permitted under ASU No. 2015-15, debt issuance costs have been deferred and are presented as an asset within other assets, which is amortized as interest expense over the term of the line of credit.

Equipment Notes

The Company has entered into Master Equipment Loan and Security Agreements (the "Master Loan Agreements") with multiple banks. The Master Loan Agreements may be used for the financing of equipment between the Company and the lending banks pursuant to one or more equipment notes ("Equipment Note"). Each Equipment Note executed under the Master Loan Agreements constitutes a separate, distinct and independent financing of equipment and a contractual obligation of the Company, which may contain prepayment clauses.

As of June 30, 2020, the Company had eight Equipment Notes outstanding under the Master Loan Agreements that are collateralized by equipment and vehicles owned by the Company. The following table sets forth our remaining principal payments for the Company's outstanding Equipment Notes as of June 30, 2020:

<u>(in thousands)</u>	<u>Future Equipment Notes Principal Payments</u>
Remainder of 2020	\$ 4,034
2021	6,356
2022	6,568
2023	7,246
2024	8,923
2025	8,853
Thereafter	6,591
Total future principal payments	\$ 48,571
Less: current portion of equipment notes	(7,186)
Long-term principal obligations	\$ 41,385

7. Revenue Recognition

Disaggregation of Revenue

A majority of the Company's revenues are earned through contracts with customers that normally provide for payment upon completion of specified work or units of work as identified in the contract. Although there is considerable variation in the terms of these contracts, they are primarily structured as fixed-price contracts, under which the Company agrees to do the entire project for a fixed amount, or unit-price contracts, under which the Company agrees to do the work at a fixed price per unit of work as specified in the contract. The Company also enters into time-and-equipment and time-and-materials contracts under which the Company is paid for labor and equipment at negotiated hourly billing rates and for other expenses, including materials, as incurred at rates agreed to in the contract. Finally, the Company sometimes enters into cost-plus contracts, where the Company is paid for costs plus a negotiated margin. On occasion, time-and-equipment, time-and-materials and cost-plus contracts include a guaranteed not-to-exceed maximum price.

Historically, fixed-price and unit-price contracts have had the highest potential margins; however, they have had a greater risk in terms of profitability because cost overruns may not be recoverable. Time-and-equipment, time-and-materials and cost-plus contracts have historically had less margin upside, but generally have had a lower risk of cost overruns. The Company also provides services under master service agreements ("MSAs") and other variable-term service agreements. MSAs normally cover maintenance, upgrade and extension services, as well as new construction. Work performed under MSAs is typically billed on a unit-price, time-and-materials or time-and-equipment basis. MSAs are typically one to three years in duration; however, most of the Company's contracts, including MSAs, may be terminated by the customer on short notice, typically 30 to 90 days, even if the Company is not in default under the contract. Under MSAs, customers generally agree to use the Company for certain services in a specified geographic region. Most MSAs include no obligation for the contract counterparty to assign specific volumes of work to the Company and do not require the counterparty to use the Company exclusively, although in some cases the MSA contract gives the Company a right of first refusal for certain work. Additional information related to the Company's market types is provided in Note 11–Segment Information.

The components of the Company's revenue by contract type for the three and six months ended June 30, 2020 and 2019 were as follows:

(dollars in thousands)	Three months ended June 30, 2020					
	T&D		C&I		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed price	\$ 126,350	45.7 %	\$ 187,662	79.4 %	\$ 314,012	61.2 %
Unit price	84,629	30.6	19,047	8.1	103,676	20.2
T&E	61,632	22.3	21,752	9.2	83,384	16.3
Other	4,148	1.4	7,831	3.3	11,979	2.3
	<u>\$ 276,759</u>	<u>100.0 %</u>	<u>\$ 236,292</u>	<u>100.0 %</u>	<u>\$ 513,051</u>	<u>100.0 %</u>

(dollars in thousands)	Three months ended June 30, 2019					
	T&D		C&I		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed price	\$ 119,572	46.7 %	\$ 115,117	59.7 %	\$ 234,689	52.3 %
Unit price	52,162	20.4	12,855	6.7	65,017	14.5
T&E	76,841	30.0	37,193	19.3	114,034	25.4
Other	7,335	2.9	27,701	14.3	35,036	7.8
	<u>\$ 255,910</u>	<u>100.0 %</u>	<u>\$ 192,866</u>	<u>100.0 %</u>	<u>\$ 448,776</u>	<u>100.0 %</u>

The components of the Company's revenue by contract type for the six months ended June 30, 2020 and 2019 were as follows:

(dollars in thousands)	Six months ended June 30, 2020					
	T&D		C&I		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed price	\$ 247,352	46.1 %	\$ 406,201	82.0 %	\$ 653,553	63.4 %
Unit price	147,939	27.6	37,123	7.5	185,062	17.9
T&E	129,683	24.2	37,554	7.6	167,237	16.2
Other	11,055	2.1	14,614	2.9	25,669	2.5
	<u>\$ 536,029</u>	<u>100.0 %</u>	<u>\$ 495,492</u>	<u>100.0 %</u>	<u>\$ 1,031,521</u>	<u>100.0 %</u>

(dollars in thousands)	Six months ended June 30, 2019					
	T&D		C&I		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Fixed price	\$ 252,896	47.9 %	\$ 248,828	64.1 %	\$ 501,724	54.7 %
Unit price	103,356	19.6	22,843	5.9	126,199	13.8
T&E	153,149	29.0	49,724	12.8	202,873	22.1
Other	19,057	3.5	67,017	17.2	86,074	9.4
	<u>\$ 528,458</u>	<u>100.0 %</u>	<u>\$ 388,412</u>	<u>100.0 %</u>	<u>\$ 916,870</u>	<u>100.0 %</u>

The components of the Company's revenue by market type for the three months ended June 30, 2020 and 2019 were as follows:

(dollars in thousands)	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Amount	Percent	Segment	Amount	Percent	Segment
Transmission	\$ 181,189	35.3 %	T&D	\$ 169,466	37.8 %	T&D
Distribution	95,570	18.6	T&D	86,444	19.2	T&D
Electrical construction	236,292	46.1	C&I	192,866	43.0	C&I
Total revenue	<u>\$ 513,051</u>	<u>100.0 %</u>		<u>\$ 448,776</u>	<u>100.0 %</u>	

The components of the Company's revenue by market type for the six months ended June 30, 2020 and 2019 were as follows:

(dollars in thousands)	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Amount	Percent	Segment	Amount	Percent	Segment
Transmission	\$ 352,755	34.2 %	T&D	\$ 357,231	39.0 %	T&D
Distribution	183,274	17.8	T&D	171,227	18.6	T&D
Electrical construction	495,492	48.0	C&I	388,412	42.4	C&I
Total revenue	<u>\$ 1,031,521</u>	<u>100.0 %</u>		<u>\$ 916,870</u>	<u>100.0 %</u>	

Remaining Performance Obligations

As of June 30, 2020, the Company had \$1.45 billion of remaining performance obligations. The Company's remaining performance obligations include projects that have a written award, a letter of intent, a notice to proceed or an agreed upon work order to perform work on mutually accepted terms and conditions.

The following table summarizes the amount of remaining performance obligations as of June 30, 2020 that the Company expects to be realized and the amount of the remaining performance obligations that the Company reasonably estimates will not be recognized within the next twelve months.

(in thousands)	Remaining Performance Obligations at June 30, 2020		Total at December 31, 2019
	Total	Amount estimated to not be recognized within 12 months	
T&D	\$ 421,472	\$ 40,418	\$ 381,850
C&I	1,025,097	191,528	1,027,193
Total	\$ 1,446,569	\$ 231,946	\$ 1,409,043

The Company expects a vast majority of the remaining performance obligations to be recognized within twenty-four months, although the timing of the Company's performance is not always under its control. Additionally, the difference between the remaining performance obligations and backlog is due to the exclusion of a portion of the Company's MSAs under certain contract types from the Company's remaining performance obligations as these contracts can be canceled for convenience at any time by the Company or the customer without considerable cost incurred by the customer. Additional information related to backlog is provided in Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

8. Income Taxes

The U.S. federal statutory tax rate was 21% for each of the three and six months ended June 30, 2020 and 2019. The Company's effective tax rate for the three and six months ended June 30, 2020 was 27.1% and 27.9%, respectively, of pretax income compared to the effective tax rate for the three and six months ended June 30, 2019 of 27.9%.

The difference between the U.S. federal statutory tax rate and the Company's effective tax rate for the three and six months ended June 30, 2020 was primarily due to state income taxes and foreign earnings and the associated impact of the global intangible low tax income ("GILTI").

The difference between the U.S. federal statutory tax rate and the Company's effective tax rate for the three and six months ended June 30, 2019, was primarily due to state income taxes offset by the impact of the Company's noncontrolling interest.

The Company had unrecognized tax benefits of approximately \$0.2 million as of June 30, 2020 and December 31, 2019, 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 related to unrecognized tax benefits was not significant for the three and six months ended June 30, 2020 and 2019.

The Company is subject to taxation in various jurisdictions. The Company's 2017 and 2018 tax returns are subject to examination by U.S. federal authorities. The Company's tax returns are subject to examination by various state authorities for the years 2015 through 2018.

9. Commitments and Contingencies

Purchase Commitments

As of June 30, 2020, the Company had approximately \$5.5 million in outstanding purchase orders for certain construction equipment, with cash payments scheduled to occur over the next five 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 insurance coverage. The deductible per occurrence for each line of coverage is up to \$1.0 million, except for wildfire coverage, which has a deductible of \$2.0 million. The Company's health benefit plans are subject to deductibles of up to \$0.2 million 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 and long-term assets in the consolidated balance sheets.

Performance and Payment Bonds and Parent Guarantees

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 sureties for any expenses paid out under these bonds. As of June 30, 2020, an aggregate of approximately \$1.079 billion in original face amount of bonds issued by the Company's sureties were outstanding. The Company estimated the remaining cost to complete these bonded projects was approximately \$452.0 million as of June 30, 2020.

From time to time, the Company guarantees the obligations of wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease agreements, and, in some states, obligations in connection with obtaining contractors' licenses. Additionally, from time to time the Company is required to post letters of credit to guarantee the obligations of wholly owned subsidiaries, which reduces the borrowing availability under the Facility.

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 liabilities for additional contributions related to these plans. Although the Company has been informed that the underfunding of 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 potential 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, 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.

10. Stock-Based Compensation

The Company maintains two equity compensation plans under which stock-based compensation has been granted: the 2017 Long-Term Incentive Plan (which was amended and restated as of April 23, 2020) (the "LTIP") and the 2007 Long-Term Incentive Plan (the "2007 Plan"). Upon the adoption of the original LTIP in 2017, awards were no longer granted under the 2007 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) restricted stock units, (f) performance share awards, (g) phantom stock units, (h) stock bonuses, (i) dividend equivalents, and (j) any combination of such grants.

Ordinarily the number of restricted stock awards and ROIC-based performance share awards are determined by dividing the amount of the equity compensation award allocated to each award type, by the closing price of the Company's common stock on the date of the grant. However, as a result of the negative impact of the COVID-19 pandemic on the Company's stock price during late March and early April of 2020, the Company's compensation committee elected to utilize the Company's average closing stock price during the last 30 trading days of 2019 to determine the number of restricted stock and ROIC-based performance shares granted in 2020. The use of this 30-trading day average resulted in the utilization of an average stock price of \$33.57, instead of the grant date closing stock price of \$26.75.

The Company has outstanding grants of time-vested stock awards in the form of restricted stock awards and restricted stock units. During the six months ended June 30, 2020, the Company granted 104,857 shares of time-vested stock awards under the LTIP to employees and to our non-employee directors at a weighted average grant date fair value of \$26.75. These time-vested stock awards granted to non-employee directors vest over one year, time-vested stock awards granted to employees vest ratably on April 27, 2021, March 23, 2022 and March 23, 2023. During the six months ended June 30, 2020, 77,397 shares of time-vested stock awards vested at a weighted average grant date fair value of \$34.31.

During the six months ended June 30, 2020, the Company granted 79,788 performance share awards under the LTIP at target, which cliff vest on December 31, 2022, at a weighted average grant date fair value of \$34.10. The number of shares ultimately earned under a performance award may vary from zero to 200% of the target shares awarded, based upon the Company's performance compared to certain metrics. The metrics used were determined at the time of the grant by the Compensation Committee of the Board of Directors and were either based on internal measures, such as the Company's financial performance compared to target, or on a market-based metric, such as the Company's stock performance compared to a peer group. Performance awards granted cliff vest upon attainment of the stated performance targets and minimum service requirements and are paid in shares of the Company's common stock.

During the six months ended June 30, 2020, plan participants exercised options to purchase 4,575 shares of the Company's common stock with a weighted average exercise price of \$17.85.

The Company recognizes stock-based compensation expense related to restricted stock awards and restricted stock units based on the grant date fair value, which was the closing price of the Company's stock on the date of grant. The fair value is expensed over the service period, which is generally three years.

For performance awards, the Company recognizes stock-based compensation expense based on the grant date fair value of the award. The fair value of internal metric-based performance awards is determined by the closing stock price of the Company's common stock on the date of the grant. The fair value of market-based performance awards is computed using a Monte Carlo simulation. Performance awards are expensed over the service period of approximately 2.8 years, and the Company adjusts the stock-based compensation expense related to internal metric-based performance awards according to its determination of the shares expected to vest at each reporting date.

11. Segment Information

MYR Group is a holding company of specialty contractors serving electrical utility infrastructure and commercial construction markets in the United States and western Canada. The Company has two reporting segments, each a separate operating segment, which are referred to as T&D and C&I. Performance measurement and resource allocation for the reporting segments are based on many factors. The primary financial measures used to evaluate the segment information are contract revenues and income from operations, excluding general corporate expenses. General corporate expenses include corporate facility and staffing costs, which include safety costs, professional fees, IT expenses and management fees. The accounting policies of the segments are the same as those described in the Note 1– Organization, Business and Significant Accounting Policies to the 2019 Annual Report.

Transmission and Distribution: The T&D segment provides a broad range of services on electric transmission and distribution networks and substation facilities which include design, engineering, procurement, construction, upgrade, maintenance and repair services with a particular focus on construction, maintenance and repair. T&D services include the construction and maintenance of high voltage transmission lines, substations and lower voltage underground and overhead distribution systems. The T&D segment also provides emergency restoration services in response to hurricane, ice or other storm-related damage. 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.

Commercial and Industrial: The C&I segment provides services such as the design, installation, maintenance and repair of commercial and industrial wiring, installation of traffic networks and the installation of bridge, roadway and tunnel lighting. Typical C&I contracts cover electrical contracting services for airports, hospitals, data centers, hotels, stadiums, convention centers, renewable energy projects, manufacturing plants, processing facilities, waste-water treatment facilities, mining facilities and transportation control and management systems. The C&I segment generally provides electric construction and maintenance services as a subcontractor to general contractors in the C&I industry, but also contracts directly with facility owners. The C&I segment has a diverse customer base with many long-standing relationships.

The information in the following table is derived from the segment's internal financial reports used for corporate management purposes:

(in thousands)	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Contract revenues:				
T&D	\$ 276,759	\$ 255,910	\$ 536,029	\$ 528,458
C&I	236,292	192,866	495,492	388,412
	<u>\$ 513,051</u>	<u>\$ 448,776</u>	<u>\$ 1,031,521</u>	<u>\$ 916,870</u>
Income from operations:				
T&D	\$ 23,838	\$ 16,050	\$ 41,802	\$ 30,980
C&I	8,958	4,512	18,270	9,570
General Corporate	(13,454)	(11,152)	(24,322)	(21,514)
	<u>\$ 19,342</u>	<u>\$ 9,410</u>	<u>\$ 35,750</u>	<u>\$ 19,036</u>

For the three and six months ended June 30, 2020, contract revenues attributable to the Company's Canadian operations were \$20.9 million and \$39.0 million, respectively, predominantly in the C&I segment. For the three and six months ended June 30, 2019, contract revenues attributable to the Company's Canadian operations were \$20.8 million and \$33.5 million, respectively, predominantly in the C&I segment.

12. Noncontrolling Interest

On July 2, 2018, through the acquisition of certain assets of the Huen Electric, Inc., Huen Electric New Jersey Inc., and Huen New York, Inc. (collectively, the "Huen Companies"), the Company became the majority controlling interest in a joint venture. As a result, the Company has consolidated the carrying value of the joint ventures' assets and liabilities and results of operations in the Company's consolidated financial statements. The equity owned by the other joint venture partners has been recorded as noncontrolling interest in the Company's consolidated balance sheets, consolidated statements of stockholders' equity, and their portions, if material, of net income (loss) and other comprehensive income shown as net income or other comprehensive income attributable to noncontrolling interest in the Company's consolidated statements of operations and other comprehensive income. Additionally, the joint venture associated with the Company's noncontrolling interest is a partnership, and consequently, the tax effect of only the Company's share of the joint venture income is recognized by the Company.

The acquired joint venture made no distributions to its partners, and the Company made no capital contributions to the joint venture, during the three and six months ended June 30, 2020. Additionally, there have been no changes in ownership during the three and six months ended June 30, 2020. The project associated with this joint venture was substantially completed in 2019.

13. Earnings Per Share

The Company computes earnings per share attributable to MYR Group Inc. using the treasury stock method. Under the treasury stock method, basic earnings per share attributable to MYR Group Inc. are computed by dividing net income available to stockholders by the weighted average number of common shares outstanding during the period, and diluted earnings per share are computed by dividing net income available to stockholders by the weighted average number of common shares outstanding during the period plus all potentially dilutive common stock equivalents, except in cases where the effect of the common stock equivalent would be anti-dilutive.

Net income attributable to MYR Group Inc. and the weighted average number of common shares used to compute basic and diluted earnings per share were as follows:

(in thousands, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net income attributable to MYR Group Inc.	\$ 13,385	\$ 7,207	\$ 23,317	\$ 14,560
Denominator:				
Weighted average common shares outstanding	16,685	16,600	16,656	16,557
Weighted average dilutive securities	80	104	95	125
Weighted average common shares outstanding, diluted	<u>16,765</u>	<u>16,704</u>	<u>16,751</u>	<u>16,682</u>
Income per common share attributable to MYR Group Inc.:				
Basic	\$ 0.80	\$ 0.43	\$ 1.40	\$ 0.88
Diluted	\$ 0.80	\$ 0.43	\$ 1.39	\$ 0.87

For the three and six months ended June 30, 2020 and 2019, certain common stock equivalents were excluded from the calculation of dilutive securities because their inclusion would either have been anti-dilutive or, for stock options, the exercise prices of those stock options were greater than the average market price of the Company's common stock for the period. All of the Company's unvested time-vested stock awards were included in the computation of weighted average dilutive securities.

The following table summarizes the shares of common stock underlying the Company's unexercised stock options, unvested time-vested stock awards and unvested performance awards that were excluded from the calculation of dilutive securities:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Time-vested stock awards	44	—	—	—
Performance awards	110	73	110	73

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and with our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Annual Report”). In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management’s expectations. Factors that could cause such differences are discussed herein under the captions “Cautionary Statement Concerning Forward-Looking Statements and Information” and “Risk Factors,” as well as in the 2019 Annual Report. We assume no obligation to update any of these forward-looking statements.

Overview and Outlook

We are a holding company of specialty electrical construction service providers that was established through the merger of long-standing specialty contractors. Through our subsidiaries, we serve the electric utility infrastructure, commercial and industrial construction markets. We manage and report our operations through two electrical contracting service segments: Transmission and Distribution (“T&D”) and Commercial and Industrial (“C&I”).

We have operated in the transmission and distribution industry since 1891. We are one of the largest contractors servicing the T&D sector of the electric utility industry in the United States and provide T&D services in western Canada. Our T&D customers include many of the leading companies in the industry. We have operated in the commercial and industrial industry since 1912. We are one of the largest electrical contractors servicing the C&I industry in the United States and in western Canada. Our C&I customers include facility owners and general contractors.

We believe that we have a number of competitive advantages in both of our segments, including our project management team, skilled workforce, extensive centralized fleet, proven safety performance and reputation for timely completion of quality work that allows us to compete favorably in our markets. In addition, we believe that we are better capitalized than some of our competitors, which provides us with valuable flexibility to take on additional and more complex projects.

The current COVID-19 pandemic has had a significant impact on the global economy, including the US and Canadian economies, during the first and second quarters of 2020. As the situation continues to evolve, the Company is closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it will impact our customers, subcontractors, suppliers, vendors and employees. The COVID-19 pandemic caused a slowdown of our projects due to specific state, local, municipal and customer mandated stay-at-home orders and new project requirements that were established to protect construction workers and the general public, most of which impacted our C&I segment in the second quarter of 2020. Although the majority of stay-at-home orders were phased-out at the end of the second quarter, we are still experiencing impacts associated with the COVID-19 project specific protocols. We expect the project specific requirements to remain in place which will continue to impact project schedules and workflow going forward.

The Company is unable to predict the ultimate impact that COVID-19 will have on our business, employees, liquidity, financial condition, results of operations and cash flows. Most of the Company’s operations are considered critical and essential businesses, making our projects generally exempt from stay-at-home or similar orders in certain parts of the United States and western Canada. However, if this pandemic persists for a prolonged period of time our business could be more significantly impacted as a result of prolonged unfavorable economic conditions. In addition, in response to the pandemic and related mitigation measures, the Company began implementing changes in March 2020 in an effort to protect our employees and customers, and to support appropriate health and safety protocols, including implementing remote, alternative and flexible work arrangements, where possible. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact our business. The key estimates that could potentially be impacted include estimates of costs to complete contracts, the recoverability of goodwill and intangibles and allowance for doubtful accounts.

We had consolidated revenues for the six months ended June 30, 2020 of \$1.0 billion, of which 52.0% was attributable to our T&D customers and 48.0% was attributable to our C&I customers. Our consolidated revenues for the six months ended June 30, 2019 were \$916.9 million. For the six months ended June 30, 2020, our net income attributable to MYR Group Inc. and EBITDA⁽¹⁾ were \$23.3 million and \$58.9 million, respectively, compared to \$14.6 million and \$41.5 million, respectively, for the six months ended June 30, 2019.

We believe there is an ongoing need for utilities to sustain investment in their transmission systems to improve reliability, reduce congestion and connect to new sources of renewable generation. Consequently, we believe we will continue to see significant bidding activity on large transmission projects over the next two years. The timing of multi-year transmission project awards and substantial construction activity is difficult to predict due to regulatory requirements and the permitting needed to commence construction. Significant construction on any large, multi-year projects awarded in 2020 will not likely occur before 2021. Bidding and construction activity for small to medium-size transmission projects and upgrades remains steady, and we expect this trend to continue, primarily due to reliability and economic drivers. However, in light of the current COVID-19 environment, we believe there may be a slowdown of construction activity in the transmission market in 2020, the recovery of which will be dependent upon the pace and timing of the United States recovery from the COVID-19 pandemic.

Because of reduced spending by United States utilities on their distribution systems for several years, we believe there is a need for sustained investment by utilities on their distribution systems to properly maintain or meet reliability requirements. We believe the increased hurricane activity over the past several years and recent destruction caused by wildfires will cause a push to strengthen utility distribution systems against catastrophic damage. Several industry and market trends are also prompting customers in the electric utility industry to seek outsourcing partners rather than performing projects internally. These trends include an aging electric utility workforce, increasing costs and staffing constraints. We believe electric utility employee retirements could increase with further economic recovery, which may result in an increase in outsourcing opportunities. We expect to see an incremental increase in distribution opportunities in the United States in 2021, however, in light of the current COVID-19 environment we believe there may be a slowdown of construction activity in distribution systems in 2020, the recovery of which will be dependent upon the pace and timing of the United States recovery from the COVID-19 pandemic.

Amid the current COVID-19 pandemic, we expect C&I bidding opportunities to be impacted and market uncertainty could contribute to an overall deceleration in projects coming out to bid. Recovery through the balance of the year will be heavily dependent on overall economic recovery. We are hopeful that the various approved stimulus packages provide greater opportunity and are encouraged by the possible approval of a long-awaited infrastructure bill. We believe that the primary markets we serve may be somewhat less vulnerable to economic slowing, such as health care, transportation, data centers, warehousing, renewable energy and water projects. In addition, many analysts are predicting increased spending in these markets as the US and Canadian societies change their post pandemic behavior. The small project market could experience a greater slow-down while owners focus their efforts on dealing with the pandemic. Many signs indicate that the service industry and small project market could quickly rebound later in the year as pent-up demand will need to be addressed.

In addition, the United States has experienced a decade of privately funded economic expansion which has challenged the capacity of public water and transportation infrastructure forcing states and municipalities to seek creative means to fund needed expansion. We believe the need for expanding public infrastructure will offer opportunity in our C&I segment for several years.

We expect the long-term growth in our C&I segment to generally track the economic growth of the regions we serve. We also expect to see increased bidding opportunities in the new C&I markets we recently entered through strategic acquisitions and organic expansions.

We strive to maintain our status as a preferred provider to our T&D and C&I customers. In an effort to support our growth strategy and maximize stockholder returns, we seek to efficiently manage our capital. We continue to

(1) EBITDA is a non-GAAP measure. Refer to “Non-GAAP Measure—EBITDA” for a discussion of this measure.

implement strategies that further expand our capabilities and allow opportunities to provide prudent capital returns. On July 15, 2019, we completed the acquisition of substantially all the assets of CSI Electrical Contractors, Inc. (“CSI”), which expanded our C&I operations in California. The total consideration was approximately \$80.7 million, funded through borrowings under our credit facility. We ended the second quarter of 2020 with \$280.2 million available under our credit facility. We believe that our financial position, positive cash flows and other operational strengths will enable us to manage the current challenges and uncertainties in the markets we serve, including new challenges and uncertainties associated with the COVID-19 pandemic, and give us the flexibility to successfully execute our strategies. In light of the uncertainties around the economic impacts from the COVID-19 pandemic, we are focused on controlling our costs and capital expenditures to preserve our ability to continue to fund our operations; however, we continue to invest in developing key management and craft personnel in both our T&D and C&I markets and in procuring the specific specialty equipment and tooling needed to win and execute projects of all sizes and complexity.

Backlog

We refer to our estimated revenue on uncompleted contracts, including the amount of revenue on contracts for which work has not begun, less the revenue we have recognized under such contracts, as “backlog.” A customer’s intention to award us work under a fixed-price contract is not included in backlog unless there is an actual written award to perform a specific scope of work at specific terms and pricing. For many of our unit-price, time-and-equipment, time-and-materials and cost plus contracts, we only include projected revenue for a three-month period in the calculation of backlog, although these types of contracts are generally awarded as part of master service agreements that typically have a one-year to three-year duration from execution. Backlog may not accurately represent the revenues that we expect to realize during any particular period. Several factors, such as the timing of contract awards, the type and duration of contracts, and the mix of subcontractor and material costs in our projects, can impact our backlog at any point in time. Some of our revenue does not appear in our periodic backlog reporting because the award of the project, as well as the execution of the work, may all take place within the period. Our backlog includes projects that have a written award, a letter of intent, a notice to proceed or an agreed upon work order to perform work on mutually accepted terms and conditions. Backlog should not be relied upon as a stand-alone indicator of future events.

The difference between our backlog and remaining performance obligations is due to the exclusion of a portion of our master service agreements under certain contract types from our remaining performance obligations as these contracts can be canceled for convenience at any time by us or the customer without considerable cost incurred by the customer. Our estimated backlog also includes our proportionate share of unconsolidated joint venture contracts. Additional information related to our remaining performance obligations is provided in Note 7–Revenue Recognition in the accompanying notes to our Consolidated Financial Statements.

Our backlog was \$1.55 billion at June 30, 2020, compared to \$1.50 billion at December 31, 2019 and \$1.16 billion at June 30, 2019. Our backlog at June 30, 2020 increased 0.5% from March 31, 2020. Backlog in the T&D segment increased \$64.0 million and C&I backlog decreased \$55.6 million compared to March 31, 2020. Our backlog as of June 30, 2020 included our proportionate share of joint venture backlog totaling \$28.7 million, compared to \$42.1 million at March 31, 2020.

The following table summarizes that amount of our backlog that we believe to be firm as of the dates shown and the amount of our current backlog that we reasonably estimate will not be recognized within the next twelve months:

(in thousands)	Backlog at June 30, 2020		Total backlog at December 31, 2019
	Total	Amount estimated to not be recognized within 12 months	
T&D	\$ 520,803	\$ 40,418	\$ 469,898
C&I	1,027,855	191,528	1,029,305
Total	<u>\$ 1,548,658</u>	<u>\$ 231,946</u>	<u>\$ 1,499,203</u>

Project Bonding Requirements and Parent Guarantees

A substantial portion of our business requires performance and payment bonds or other means of financial assurance to secure contractual performance. These bonds are typically issued at the face value of the contract awarded. If we fail to perform or pay our subcontractors or vendors, the customer may demand that the surety provide services or make payments under the bond. In such a case, we would likely be required to reimburse the surety for any expenses or outlays it incurs. To date, we have not been required to make any reimbursements to our sureties for claims against our surety bonds. As of June 30, 2020, we had approximately \$1.079 billion in original face amount of surety bonds outstanding. Our estimated remaining cost to complete these bonded projects was approximately \$452.0 million as of June 30, 2020.

From time to time, we guarantee the obligations of our wholly owned subsidiaries, including obligations under certain contracts with customers, certain lease agreements, and, in some states, obligations in connection with obtaining contractors' licenses. Additionally, from time to time, we are required to post letters of credit to guarantee the obligations of our wholly owned subsidiaries, which reduces the borrowing availability under our credit facility.

Consolidated Results of Operations

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

(dollars in thousands)	Three months ended June 30,				Six months ended June 30,			
	2020		2019		2020		2019	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Contract revenues	\$ 513,051	100.0 %	\$ 448,776	100.0 %	\$ 1,031,521	100.0 %	\$ 916,870	100.0 %
Contract costs	451,746	88.1	405,613	90.4	908,584	88.1	830,831	90.6
Gross profit	61,305	11.9	43,163	9.6	122,937	11.9	86,039	9.4
Selling, general and administrative expenses	41,199	8.0	33,944	7.6	86,245	8.4	66,931	7.3
Amortization of intangible assets	1,203	0.2	735	0.2	2,431	0.2	1,469	0.2
Gain on sale of property and equipment	(439)	(0.1)	(926)	(0.2)	(1,489)	(0.2)	(1,397)	(0.2)
Income from operations	19,342	3.8	9,410	2.0	35,750	3.5	19,036	2.1
Other income (expense)								
Interest income	4	—	—	—	6	—	—	—
Interest expense	(1,315)	(0.3)	(1,168)	(0.3)	(2,828)	(0.3)	(2,373)	(0.3)
Other income (expense), net	321	0.1	582	0.1	(574)	(0.1)	1,328	0.1
Income before provision for income taxes	18,352	3.6	8,824	1.8	32,354	3.1	17,991	1.9
Income tax expense	4,967	1.0	2,466	0.4	9,037	0.8	5,013	0.5
Net income	13,385	2.6	6,358	1.4	23,317	2.3	12,978	1.4
Less: net loss attributable to noncontrolling interest	—	—	(849)	(0.2)	—	—	(1,582)	(0.2)
Net income attributable to MYR Group Inc.	\$ 13,385	2.6 %	\$ 7,207	1.6 %	\$ 23,317	2.3 %	\$ 14,560	1.6 %

Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Revenues. Revenues were \$513.1 million for the three months ended June 30, 2020 compared to \$448.8 million for the three months ended June 30, 2019. The increase of \$64.3 million, or 14.3%, was primarily due to incremental revenues from the CSI acquisition, which was acquired in the third quarter of 2019, along with an increase in revenue on transmission and distribution projects. These increases were partially offset by a decrease in revenue on various-sized C&I projects, along with impacts related to the COVID-19 pandemic primarily associated with our C&I segment.

Gross margin. Gross margin was 11.9% for the three months ended June 30, 2020 compared to 9.6% for the three months ended June 30, 2019. The increase in gross margin was primarily due to better-than-anticipated productivity, an increase in higher margin work and favorable job close-outs on certain projects. These improvements were partially offset by decreases in revenue recognized on pending claims and change orders for which the Company is seeking reimbursement, and labor inefficiencies on certain projects. Additionally, gross margin during the three months ended June 30, 2019 was negatively impacted by inefficiencies associated with a joint venture project, that has since

been completed. Changes in estimates of gross profit on certain projects resulted in a gross margin increase of 0.2% and a decrease of 0.9% for the three months ended June 30, 2020 and 2019, respectively.

Gross profit. Gross profit was \$61.3 million for the three months ended June 30, 2020 compared to \$43.2 million for the three months ended June 30, 2019. The increase of \$18.1 million, or 42.0% was due to higher revenues and margins.

Selling, general and administrative expenses. Selling, general and administrative expenses (“SG&A”) was \$41.2 million for the three months ended June 30, 2020 compared to \$33.9 million for the three months ended June 30, 2019. The period-over-period increase of \$7.3 million was primarily due to the acquisition of CSI along with higher employee-related expenses to support the growth in our operations partially offset by a reversal of contingent compensation expense related to a prior acquisition.

Gain on sale of property and equipment. Gains from the sale of property and equipment for the three months ended June 30, 2020 were \$0.4 million compared to \$0.9 million for the three months ended June 30, 2019. Gains from the sale of property and equipment are attributable to routine sales of property and equipment no longer useful or valuable to our ongoing operations.

Interest expense. Interest expense was \$1.3 million for the three months ended June 30, 2020 compared to \$1.2 million for the three months ended June 30, 2019.

Other income (expense). Other income was \$0.3 million for the three months ended June 30, 2020, primarily attributable to a contingent consideration related to margin guarantees on certain contracts associated with the acquisition of CSI recognized in the three months ended June 30, 2020.

Income tax expense. Income tax expense was \$5.0 million for the three months ended June 30, 2020, with an effective tax rate of 27.1%, compared to the expense of \$2.5 million for the three months ended June 30, 2019, with an effective tax rate of 27.9%. The decrease in the tax rate for the three months ended June 30, 2020 was primarily due to a decrease in our foreign taxes.

Net income attributable to MYR Group Inc. Net income attributable to MYR Group Inc. was \$13.4 million for the three months ended June 30, 2020 compared to \$7.2 million for the three months ended June 30, 2019. The increase was primarily due to the reasons stated earlier.

Segment Results

The following table sets forth, for the periods indicated, statements of operations data by segment, segment net sales as percentage of total net sales and segment operating income as a percentage of segment net sales:

(dollars in thousands)	Three months ended June 30,			
	2020		2019	
	Amount	Percent	Amount	Percent
Contract revenues:				
Transmission & Distribution	\$ 276,759	53.9 %	\$ 255,910	57.0 %
Commercial & Industrial	236,292	46.1	192,866	43.0
Total	\$ 513,051	100.0 %	\$ 448,776	100.0 %
Operating income (loss):				
Transmission & Distribution	\$ 23,838	8.6 %	\$ 16,050	6.3 %
Commercial & Industrial	8,958	3.8	4,512	2.3
Total	32,796	6.4	20,562	4.6
General Corporate	(13,454)	(2.6)	(11,152)	(2.5)
Consolidated	\$ 19,342	3.8 %	\$ 9,410	2.1 %

Transmission & Distribution

Revenues for our T&D segment for the three months ended June 30, 2020 were \$276.8 million compared to \$255.9 million for the three months ended June 30, 2019, an increase of \$20.9 million, or 8.1%. The increase in revenue was primarily related to an increase in volume on both transmission and distribution projects.

Revenues from transmission projects represented 65.5% and 66.2% of T&D segment revenue for the three months ended June 30, 2020 and 2019, respectively. Additionally, for the three months ended June 30, 2020, measured by revenue in our T&D segment, we provided 45.7% of our T&D services under fixed-price contracts, as compared to 46.7% for the three months ended June 30, 2019.

Operating income for our T&D segment for the three months ended June 30, 2020 was \$23.8 million, an increase of \$7.7 million, or 48.5%, from the three months ended June 30, 2019. The increase in T&D operating income from the prior year was primarily due to higher revenues, better-than-anticipated productivity and an increase in higher margin work on certain projects. These increases were partially offset by decreases in revenue recognized on pending claims and change orders for which the Company is seeking reimbursement. As a percentage of revenues, operating income for our T&D segment was 8.6% for the three months ended June 30, 2020 compared to 6.3% for the three months ended June 30, 2019.

Commercial & Industrial

Revenues for our C&I segment for the three months ended June 30, 2020 were \$236.3 million compared to \$192.9 million for the three months ended June 30, 2019, an increase of \$43.4 million, or 22.5%, primarily due to incremental revenues from the CSI acquisition, partially offset by a decrease due to the timing of activity on various-sized projects along with impacts related to the COVID-19 pandemic. Measured by revenue in our C&I segment, we provided 79.4% of our services under fixed-price contracts for the three months ended June 30, 2020, compared to 59.7% for the three months ended June 30, 2019.

Operating income for our C&I segment for the three months ended June 30, 2020 was \$9.0 million, an increase of \$4.5 million, over the three months ended June 30, 2019. The period-over-period increase in operating income was due to higher revenues, better-than-anticipated productivity and favorable job close-outs on certain projects. Operating income was also positively impacted by a reversal of contingent compensation expense related to a prior acquisition. These increases were partially offset by labor inefficiencies on certain projects and decreases in revenue recognized on pending claims and change orders for which the Company is seeking reimbursement. As a percentage of revenues, operating income for our C&I segment was 3.8% for the three months ended June 30, 2020 compared to 2.3% for the three months ended June 30, 2019.

Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019

Revenues. Revenues were \$1.0 billion for the six months ended June 30, 2020 compared to \$916.9 million for the six months ended June 30, 2019. The increase of \$114.6 million, or 12.5%, was primarily due to incremental revenues from the CSI acquisition, partially offset by a decrease due to the timing of activity on various-sized C&I projects, along with impacts related to the COVID-19 pandemic primarily associated with our C&I segment.

Gross margin. Gross margin was 11.9% for the six months ended June 30, 2020 compared to 9.4% for the six months ended June 30, 2019. The increase in gross margin was primarily due to better-than-anticipated productivity and an increase in higher margin work on certain projects. These increases were partially offset by decreases in revenue recognized on pending claims and change orders for which the Company is seeking reimbursement, labor inefficiencies on certain projects, and inclement weather experienced on certain projects. Additionally, gross margin during the six months ended June 30, 2019 was negatively impacted by inefficiencies associated with a joint venture project, that has since been completed. Changes in estimates of gross profit on certain projects resulted in gross margin decreases of 0.1% and 1.0% for the six months ended June 30, 2020 and 2019, respectively.

Gross profit. Gross profit was \$122.9 million for the six months ended June 30, 2020 compared to \$86.0 million for the six months ended June 30, 2019, the increase of \$36.9 million, or 42.9% was due to higher revenues and margins.

Selling, general and administrative expenses. SG&A was \$86.2 million for the six months ended June 30, 2020 compared to \$66.9 million for the six months ended June 30, 2019. The period-over-period increase of \$19.3 million was primarily due to the acquisition of CSI along with higher employee-related expenses to support the growth in our operations partially offset by a reversal of contingent compensation expense related to a prior acquisition.

Gain on sale of property and equipment. Gains from the sale of property and equipment for the six months ended June 30, 2020 were \$1.5 million compared to \$1.4 million for the six months ended June 30, 2019. Gains from the sale of property and equipment are attributable to routine sales of property and equipment no longer useful or valuable to our ongoing operations.

Interest expense. Interest expense was \$2.8 million for the six months ended June 30, 2020 compared to \$2.4 million for the six months ended June 30, 2019. This increase was primarily attributable to increased borrowing related to the acquisition of CSI and an increase in our working capital needs to support higher volume, partially offset by a decrease in our weighted average interest rate during the six months ended June 30, 2020 as compared to the six months ended June 30, 2019.

Other income (expense). Other expense was \$0.6 million for the six months ended June 30, 2020, primarily attributable to a contingent consideration related to margin guarantees on certain contracts associated with the acquisition of CSI recognized in the three months ended June 30, 2020. Other income was \$1.3 million for the six months ended June 30, 2019.

Income tax expense. Income tax expense was \$9.0 million for the six months ended June 30, 2020, with an effective tax rate of 27.9%, compared to the expense of \$5.0 million for the six months ended June 30, 2019, with an effective tax rate of 27.9%.

Net income attributable to MYR Group Inc. Net income attributable to MYR Group Inc. was \$23.3 million for the six months ended June 30, 2020 compared to \$14.6 million for the six months ended June 30, 2019. The increase was primarily due to the reasons stated earlier.

Segment Results

The following table sets forth, for the periods indicated, statements of operations data by segment, segment net sales as percentage of total net sales and segment operating income as a percentage of segment net sales:

(dollars in thousands)	Six months ended June 30,			
	2020		2019	
	Amount	Percent	Amount	Percent
Contract revenues:				
Transmission & Distribution	\$ 536,029	52.0 %	\$ 528,458	57.6 %
Commercial & Industrial	495,492	48.0	388,412	42.4
Total	<u>\$ 1,031,521</u>	<u>100.0 %</u>	<u>\$ 916,870</u>	<u>100.0 %</u>
Operating income (loss):				
Transmission & Distribution	\$ 41,802	7.8 %	\$ 30,980	5.9 %
Commercial & Industrial	18,270	3.7 %	9,570	2.5 %
Total	60,072	5.8 %	40,550	4.4 %
General Corporate	(24,322)	(2.3)	(21,514)	(2.3)
Consolidated	<u>\$ 35,750</u>	<u>3.5 %</u>	<u>\$ 19,036</u>	<u>2.1 %</u>

Transmission & Distribution

Revenues for our T&D segment for the six months ended June 30, 2020 were \$536.0 million compared to \$528.5 million for the six months ended June 30, 2019, an increase of \$7.5 million, or 1.4%. The increase in revenue was primarily related to an increase in revenue on distribution projects, partially offset by a decrease in revenue on transmission projects.

Revenues from transmission projects represented 65.8% and 67.6% of T&D segment revenue for the six months ended June 30, 2020 and 2019, respectively. Additionally, for the six months ended June 30, 2020, measured by revenue in our T&D segment, we provided 46.1% of our T&D services under fixed-price contracts, as compared to 47.9% for the six months ended June 30, 2019.

Operating income for our T&D segment for the six months ended June 30, 2020 was \$41.8 million, an increase of \$10.8 million, or 34.9%, from the six months ended June 30, 2019. The increase in T&D operating income from the prior year was primarily due to better-than-anticipated productivity, cost improvements and an increase in higher margin work on certain projects, partially offset by inclement weather experienced on certain projects, a decrease in revenue recognized on pending claims and change orders for which the Company is seeking reimbursement, and labor and material inefficiencies. As a percentage of revenues, operating income for our T&D segment was 7.8% for the six months ended June 30, 2020 compared to 5.9% for the six months ended June 30, 2019.

Commercial & Industrial

Revenues for our C&I segment for the six months ended June 30, 2020 were \$495.5 million compared to \$388.4 million for the six months ended June 30, 2019, an increase of \$107.1 million, or 27.6%, primarily due to incremental revenues from the CSI acquisition, partially offset by a decrease due to the timing of activity on various-sized projects along with impacts related to the COVID-19 pandemic. Measured by revenue in our C&I segment, we provided 82.0% of our services under fixed-price contracts for the six months ended June 30, 2020, compared to 64.1% for the six months ended June 30, 2019.

Operating income for our C&I segment for the six months ended June 30, 2020 was \$18.3 million, an increase of \$8.7 million over the six months ended June 30, 2019. The period-over-period increase in operating income was primarily due to higher revenues and better-than-anticipated productivity on certain projects, partially offset by labor inefficiencies on certain projects, a decrease in revenue recognized on pending claims and change orders for which the Company is seeking reimbursement, along with amortization related to certain intangibles acquired with CSI. As a percentage of revenues, operating income for our C&I segment was 3.7% for the six months ended June 30, 2020 compared to 2.5% for the six months ended June 30, 2019.

Non-GAAP Measure—EBITDA

We define EBITDA, a performance measure used by management, as net income attributable to MYR Group Inc. plus net income from noncontrolling interest, interest expense net of interest income, provision for income taxes and depreciation and amortization. EBITDA, a non-GAAP financial measure, does not purport to be an alternative to net income attributable to MYR Group Inc. as a measure of operating performance or to net cash flows provided by operating activities as a measure of liquidity. We believe that EBITDA is useful to investors and other external users of our Consolidated Financial Statements in evaluating our operating performance and cash flow because EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest expense, taxes, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, useful lives placed on assets, capital structure and the method by which assets were acquired. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly-titled measures of other companies. We use, and we believe investors benefit from, the presentation of EBITDA in evaluating our operating performance because it provides us and our investors with an additional tool to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations.

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

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income attributable to MYR Group Inc.	\$ 13,385	\$ 7,207	\$ 23,317	\$ 14,560
Net loss attributable to noncontrolling interests	—	(849)	—	(1,582)
Net income	13,385	6,358	23,317	12,978
Add:				
Interest expense, net	1,311	1,168	2,822	2,373
Income tax expense	4,967	2,466	9,037	5,013
Depreciation & amortization	11,886	10,634	23,755	21,183
EBITDA	<u>\$ 31,549</u>	<u>\$ 20,626</u>	<u>\$ 58,931</u>	<u>\$ 41,547</u>

We also use EBITDA as a liquidity measure. Certain material covenants contained within our credit agreement (the “Credit Agreement”) are based on EBITDA with certain additional adjustments. Non-compliance with these financial covenants under the Credit Agreement — our interest coverage ratio which is defined in the Credit Agreement as Consolidated EBITDA (as defined in the Credit Agreement) divided by interest expense (as defined in the Credit Agreement) and our leverage ratio, which is defined in the Credit Agreement as Consolidated Total Indebtedness (as defined in the Credit Agreement), divided by Consolidated EBITDA (as defined in the Credit Agreement) — could result in our lenders requiring us to immediately repay all amounts borrowed. If we anticipated a potential covenant violation, we would seek relief from our lenders, likely causing us to incur additional cost, and such relief might not be available, or if available, might not be on terms as favorable as those in the Credit Agreement. In addition, if we cannot satisfy these financial covenants, we would be prohibited under the Credit Agreement from engaging in certain activities, such as incurring additional indebtedness, making certain payments, and acquiring or disposing of assets. Based on the information above, management believes that the presentation of EBITDA as a liquidity measure is useful to investors and relevant to their assessment of our capacity to service or incur debt, fund capital expenditures, finance acquisitions and expand our operations.

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

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Provided By Operating Activities:				
Net cash flows provided by operating activities	\$ 62,680	\$ 15,604	\$ 97,923	\$ 7,399
Add/(subtract):				
Changes in operating assets and liabilities	(35,882)	2,841	(49,363)	28,324
Adjustments to reconcile net income to net cash flows provided by operating activities	(13,413)	(12,087)	(25,243)	(22,745)
Depreciation & amortization	11,886	10,634	23,755	21,183
Provision for income taxes	4,967	2,466	9,037	5,013
Interest expense, net	1,311	1,168	2,822	2,373
EBITDA	\$ 31,549	\$ 20,626	\$ 58,931	\$ 41,547

Liquidity and Capital Resources

As of June 30, 2020, we had working capital of \$191.4 million. We define working capital as current assets less current liabilities. During the six months ended June 30, 2020, operating activities of our business provided net cash of \$97.9 million, compared to \$7.4 million of cash provided for the six months ended June 30, 2019. Cash flow from operations is primarily influenced by demand for our services, operating margins, timing of contract performance and the type of services we provide to our customers. The \$90.5 million year-over-year increase in cash provided by operating activities was primarily due to favorable net changes in operating assets and liabilities of \$77.7 million and increases in net income of \$10.3 million and depreciation and amortization of \$2.6 million. The favorable change in operating assets and liabilities was primarily due to the net favorable year-over-year increases in various working capital accounts that relate primarily to construction activities (accounts receivable, contract assets, accounts payable and contract liabilities) of \$40.1 million and a favorable change of \$27.6 million in other liabilities, of which \$9.1 million is due to the timing of payroll and the related tax payments, which we have elected to defer under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The increase in cash provided by working capital accounts, primarily related to construction activities, was primarily due to higher collections of accounts receivable, partially offset by net increases in other working capital requirements needed to support our increased revenue.

In the six months ended June 30, 2020, we used net cash in investing activities of \$15.3 million, consisting of \$16.9 million for capital expenditures, partially offset by \$1.6 million of proceeds from the sale of equipment.

In the six months ended June 30, 2020, financing activities used net cash of \$84.8 million, consisting primarily of \$70.4 million of repayments under our revolving line of credit, \$13.4 million of repayments of principal obligations under equipment notes, \$0.6 million of repayments of finance lease obligations and share repurchases of \$0.4 million, all of which represented shares surrendered to satisfy tax obligations under our stock compensation programs during the six months ended June 30, 2020.

We anticipate that our borrowing availability of \$280.2 million at June 30, 2020 under our revolving line of credit and future cash flow from operations will provide sufficient cash to enable us to meet our future operating needs, debt service requirements, capital expenditures, acquisition and joint venture opportunities, and any new challenges and uncertainties associated with the COVID-19 pandemic. Although we believe that we have adequate cash and borrowing capacity to meet our liquidity needs, any large projects or acquisitions may require additional capital. Additionally, in light of the uncertainties around the economic impacts from the COVID-19 pandemic, we are focused on controlling our costs and capital expenditures to preserve our ability to continue to fund our operations; however, we continue to invest in developing key management and craft personnel in both our T&D and C&I markets and in procuring the specific specialty equipment and tooling needed to win and execute projects of all sizes and complexity.

We have not historically paid dividends and currently do not expect to pay dividends.

Debt Instruments

Credit Agreement

On September 13, 2019, we entered into a five-year amended and restated credit agreement (the “Credit Agreement”) with a syndicate of banks led by JPMorgan Chase Bank, N.A. and Bank of America, N.A. The Credit Agreement provides for a facility of \$375 million (the “Facility”), not to exceed three times Consolidated EBITDA (as defined in the Credit Agreement) less Consolidated Total Indebtedness (as defined in the Credit Agreement), that may be used for revolving loans of which \$150 million may be used for letters of credit. The Facility also allows for revolving loans and letters of credit in Canadian dollars and other currencies, up to the U.S. dollar equivalent of \$75 million. We have an expansion option to increase the commitments under the Facility or enter into incremental term loans, subject to certain conditions, by up to an additional \$200 million upon receipt of additional commitments from new or existing lenders. Subject to certain exceptions, the Facility is secured by substantially all of our assets and the assets of our domestic subsidiaries and by a pledge of substantially all of the capital stock of our domestic subsidiaries and 65% of the capital stock of our direct foreign subsidiaries. Additionally, subject to certain exceptions, our domestic subsidiaries also guarantee the repayment of all amounts due under the Credit Agreement. If an event of default occurs and is continuing, on the terms and subject to the conditions set forth in the Credit Agreement, amounts outstanding under the Facility may be accelerated and may become or be declared immediately due and payable. Borrowings under the Facility are used for refinancing existing debt, working capital, capital expenditures, acquisitions and other general corporate purposes.

Amounts borrowed under the Credit Agreement bear interest, at our option, at a rate equal to either (1) the Alternate Base Rate (as defined in the Credit Agreement), plus an applicable margin ranging from 0.00% to 0.75%; or (2) Adjusted LIBO Rate (as defined in the Credit Agreement) plus an applicable margin ranging from 1.00% to 1.75%. The applicable margin is determined based on our consolidated leverage ratio (“Leverage Ratio”) which is defined in the Credit Agreement as Consolidated Total Indebtedness (as defined in the Credit Agreement) divided by Consolidated EBITDA (as defined in the Credit Agreement). Letters of credit issued under the Facility are subject to a letter of credit fee of 1.00% to 1.75% for non-performance letters of credit or 0.50% to 0.875% for performance letters of credit, based on our consolidated Leverage Ratio. We are subject to a commitment fee of 0.15% to 0.25%, based on our consolidated Leverage Ratio, on any unused portion of the Facility. The Credit Agreement restricts certain types of payments when our consolidated Leverage Ratio exceeds 2.50 or our consolidated Liquidity (as defined in the Credit Agreement) is less than \$50 million.

Under the Credit Agreement, we are subject to certain financial covenants and must maintain a maximum consolidated Leverage Ratio of 3.0 and a minimum interest coverage ratio of 3.0, which is defined in the Credit Agreement as Consolidated EBITDA (as defined in the Credit Agreement) divided by interest expense (as defined in the Credit Agreement). The Credit Agreement also contains a number of covenants, including limitations on asset sales, investments, indebtedness and liens. We were in compliance with all of the financial covenants under the Credit Agreement as of June 30, 2020.

As of June 30, 2020, we had \$33.4 million of debt outstanding under the Facility and letters of credit outstanding of approximately \$10.5 million. As of December 31, 2019, we had \$103.8 million of debt outstanding under the Facility and letters of credit outstanding of approximately \$10.6 million.

Equipment Notes

We have entered into multiple Master Loan Agreements with multiple banks. The Master Loan Agreements may be used for financing of equipment between us and the lending banks pursuant to one or more equipment notes (“Equipment Notes”). Each Equipment Note constitutes a separate, distinct and independent financing of equipment and contractual obligation.

As of June 30, 2020, we had executed eight Equipment Notes that are collateralized by equipment and vehicles owned by us. The outstanding balance of these Equipment Notes was \$48.6 million as of June 30, 2020.

Off-Balance Sheet Transactions

As is common in our industry, we enter into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected on our balance sheets. Our significant off-balance sheet transactions, such as liabilities associated with letter of credit obligations and surety guarantees related to performance bonds, could be entered into in the normal course of business. We have not engaged in any off-balance sheet financing arrangements through special purpose entities.

For a discussion regarding off-balance sheet transactions, please refer to Note 9—Commitments and Contingencies in the accompanying notes to our Consolidated Financial Statements.

Concentration of Credit Risk

We grant trade credit under normal payment terms, generally without collateral, to our customers, which include high credit quality electric utilities, governmental entities, general contractors and builders, owners and managers of commercial and industrial properties located in the United States. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States. However, we generally have certain statutory lien rights with respect to services provided. Under certain circumstances such as foreclosures or negotiated settlements, we may take title to the underlying assets in lieu of cash in settlement of receivables. As of June 30, 2020 and 2019, none of our customers individually exceeded 10.0% of consolidated accounts receivable. Management believes the terms and conditions in its contracts, billing and collection policies are adequate to minimize the potential credit risk.

New Accounting Pronouncements

For a discussion regarding new accounting pronouncements, please refer to Note 1—Organization, Business and Basis of Presentation—Recent Accounting Pronouncements in the accompanying notes to our Consolidated Financial Statements.

Critical Accounting Policies

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 U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis, based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. There can be no assurance that actual results will not differ from those estimates. For further information regarding our critical accounting policies and estimates, please refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” included in our 2019 Annual Report.

Cautionary Statement Concerning Forward-Looking Statements and Information

We are including the following discussion to inform you of some of the risks and uncertainties that can affect our company and to take advantage of the protections for forward-looking statements that applicable federal securities law affords.

Statements in this Quarterly Report on Form 10-Q contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), which represent our beliefs and assumptions concerning future events. When used in this document and in documents incorporated by reference, forward-looking statements include, without limitation, statements regarding financial forecasts or projections, and our expectations, beliefs, intentions or future strategies that are signified by the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “objective,” “outlook,” “plan,”

“project,” “likely,” “unlikely,” “possible,” “potential,” “should” or other words that convey the uncertainty of future events or outcomes. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date of this Quarterly Report on Form 10-Q. We disclaim any obligation to update these statements (unless required by securities laws), and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While we consider these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict, and many of which are beyond our control. In addition, many of these risks, contingencies and uncertainties are currently amplified by, and may continue to be amplified by, the COVID-19 pandemic. These and other important factors, including those discussed under the caption “Forward-Looking Statements” and in Item 1A. “Risk Factors” in our 2019 Annual Report, and in any risk factors or cautionary statements contained in our other filings with the Securities and Exchange Commission, may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

These risks, contingencies and uncertainties include, but are not limited to, the following:

- Our operating results may vary significantly from period to period.
- Our industry is highly competitive. Increased competition can place downward pressure on contract prices and profit margins and may limit the number of projects that we are awarded.
- We may be unsuccessful in generating internal growth, which could impact the projects available to the Company.
- Negative economic and market conditions, as well as regulatory and environmental requirements, may adversely impact our customers’ future spending and, as a result, our operations and growth.
- Project performance issues, including those caused by third parties, or certain contractual obligations may result in additional costs to us, reductions or delays in revenues or the payment of penalties, including liquidated damages.
- Our revenues may be exposed to potential risk if a project is terminated or canceled, if our customers encounter financial difficulties or if we encounter disputes with our customers.
- Our business is labor intensive and we may be unable to attract and retain qualified personnel.
- The timing of new contracts and termination of existing contracts may result in unpredictable fluctuations in our cash flows and financial results.
- During the ordinary course of our business, we may become subject to lawsuits or indemnity claims, which could materially and adversely affect our business and results of operations.
- We may incur liabilities and suffer negative financial or reputational impacts relating to occupational health and safety matters.
- Backlog may not be realized or may not result in profits and may not accurately represent future revenue.
- Our business growth could outpace the capability of our internal resources and limit our ability to support growth.
- Our dependence on suppliers, subcontractors and equipment manufacturers could expose us to the risk of loss in our operations.
- Our participation in joint ventures and other projects with third parties may expose us to liability for failures of our partners.
- Our inability to successfully execute or integrate acquisitions or joint ventures may have an adverse impact on our growth strategy and business.

- Legislative or regulatory actions relating to electricity transmission and renewable energy may impact demand for our services.
- Our use of percentage-of-completion accounting could result in a reduction or reversal of previously recognized profits.
- Our insurance has limits and exclusions that may not fully indemnify us against certain claims or losses, and the unavailability or cancellation of third party insurance coverages would increase our overall risk exposure and could disrupt our operations.
- Our actual costs may be greater than expected in performing our fixed-price and unit-price contracts.
- Our financial results are based upon estimates and assumptions that may differ from actual results.
- The loss of a major customer may have an adverse effect on us.
- We extend trade credit to customers for purchases of our services, and may have difficulty collecting receivables from them.
- Our failure to comply with environmental and other laws and regulations could result in significant liabilities.
- We may not be able to compete for, or work on, certain projects if we are not able to obtain necessary bonds, letters of credit, bank guarantees or other financial assurances.
- Inability to hire or retain key personnel could disrupt our business.
- The COVID-19 pandemic may have an adverse impact on our business, employees, liquidity, financial condition, results of operations and cash flows.
- Our business may be affected by seasonal and other variations, including severe weather conditions and the nature of our work environment.
- Work stoppages or other labor issues with our unionized workforce could adversely affect our business, and we may be subject to unionization attempts.
- Failure to obtain permitting, right-of-way access and other tactical considerations prior to the commencement of work could delay the commencement of work on projects or cause modifications of work plans, potentially resulting in lower margins.
- Multi-employer pension plan obligations related to our unionized workforce could adversely impact our earnings.
- Our results of operations could be adversely affected as a result of asset impairments.
- We may not have access in the future to sufficient funding to finance desired growth and operations.
- We rely on information, communications and data systems in our operations and we or our business partners may be subject to failures, interruptions or breaches of such systems, which could affect our operations or our competitive position, expose sensitive information or damage our reputation.
- Our operations are subject to a number of operational risks which may result in unexpected costs or liabilities.
- Opportunities associated with government contracts could lead to increased governmental regulation applicable to us.
- Changes in our interpretation of tax laws could impact the determination of our income tax liabilities.
- The nature of our business exposes us to potential liability for warranty claims and faulty engineering, which may reduce our profitability.

- Our stock may experience significant price and volume fluctuations and future issuances of our common stock could lead to dilution of our issued and outstanding common stock.
- Risks associated with operating in the Canadian market could restrict our ability to expand and harm our business and prospects.
- Our failure to comply with the laws applicable to our Canadian activities, including the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws, could have an adverse effect on us.
- If we fail to maintain effective internal controls, we may not be able to report our financial results accurately or timely or prevent or detect fraud, which could have a material adverse effect on our business or the market price of our common stock.
- An increase in the prices of certain materials and commodities used in our business could adversely affect our business.
- Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.
- Certain provisions in our organizational documents and Delaware law could delay or prevent a change in control of our company.
- We are subject to risks associated with climate change.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2020, we were not party to any derivative instruments. We did not use any material derivative financial instruments during the six months ended June 30, 2020 and 2019, including instruments for trading, hedging or speculating on changes in interest rates or commodity prices of materials used in our business.

As of June 30, 2020, we had \$33.4 million of debt outstanding under the Facility. Borrowings under the Facility are based upon an interest rate that will vary depending upon the prime rate, federal funds rate and Adjusted LIBOR. If the prime rate, federal funds rate or Adjusted LIBOR increased, our interest payment obligations on outstanding borrowings would increase and have a negative effect on our cash flow and financial condition. We currently do not maintain any hedging contracts that would limit our exposure to variable rates of interest when we have outstanding borrowings. If market rates of interest on all our revolving debt as of June 30, 2020, which is subject to variable rates, permanently increased by 1%, the increase in interest expense on all revolving debt would decrease future income before provision for income taxes and cash flows by approximately \$0.3 million annually. If market rates of interest on all our revolving debt, which is subject to variable rates as of June 30, 2020, permanently decreased by 1%, the decrease in interest expense on all debt would increase future income before provision for income taxes and cash flows by the same amount.

Borrowings under our Equipment Notes are at fixed rates established on the date the respective Equipment Note was executed.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures, as defined under Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

Changes in Internal Control Over Financial Reporting

During the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

For the year ended December 31, 2019, management's assessment of our internal control over financial reporting excluded the internal control over financial reporting of CSI Electrical Contractors, Inc., which was acquired on July 15, 2019. Pursuant to the SEC's general guidance that a recently acquired business may be omitted from the scope of an assessment in the year of the acquisition, the scope of our assessment does not include CSI Electrical Contractors, Inc. Our assessment of the effectiveness of internal control over financial reporting as of December 31, 2020 will include CSI Electrical Contractors, Inc. As of June 30, 2020, CSI Electrical Contractors, Inc. represented a total of approximately 15.5% and 19.8% of total assets and net assets, respectively, and 14.2% and 2.9% of contract revenues and income before income taxes, respectively, for the quarter then ended.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For discussion regarding legal proceedings, please refer to Note 9—Commitments and Contingencies—Litigation and Other Legal Matters in the accompanying notes to our Consolidated Financial Statements.

ITEM 1A. RISK FACTORS

We face a number of risks that could materially and adversely affect our business, employees, liquidity, financial condition, results of operations and cash flows. A discussion of our risk factors can be found in Item 1A. “Risk Factors” in our 2019 Annual Report. The information below includes additional risks relating to the COVID-19 pandemic. The impact of COVID-19 may also exacerbate other risks discussed in Item 1A. “Risk Factors” in our 2019 Annual Report, any of which could have a material effect on us.

The COVID-19 pandemic may have an adverse impact on our business, employees, liquidity, financial condition, results of operations and cash flows.

In December 2019, there was an outbreak of a novel strain of coronavirus (COVID-19) in China that has since spread to nearly all regions of the world. The outbreak was subsequently declared a pandemic by the World Health Organization in March 2020. To date, the COVID-19 outbreak and preventative measures taken to contain or mitigate the outbreak have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas and significant disruption in the financial markets both globally and in the United States and Canada.

In response to the pandemic and related mitigation measures, we began implementing changes in our business in March 2020 in an effort to protect our employees and customers, and to support appropriate health and safety protocols, including implementing remote, alternative and flexible work arrangements, where possible. While these measures have been necessary and appropriate, they could result in higher operating costs and could adversely impact our business, including certain operational, reporting, accounting or other processes. In addition, an extended period of remote work arrangements could impair our ability to effectively manage our business, and introduce additional operational risks, including but not limited to cybersecurity risks and increased vulnerability to security breaches, cyber-attacks, computer viruses, ransomware, or other similar events and intrusions.

As our response to the pandemic evolves, we may incur additional costs and could experience adverse impacts to our business, each of which may be significant. We have focused on controlling our costs and capital expenditures to preserve our ability to continue to fund our operations and may need to take additional actions to reduce spending in the future. Although we are unable to predict the ultimate impact of the COVID-19 outbreak at this time, the pandemic could adversely affect, our business, employees, liquidity, financial condition, results of operations and cash flows. Such effects may be material and the potential impacts include, but are not limited to:

- disruptions in our supply chain due to transportation delays, travel restrictions, raw material cost increases and shortages, and closures of businesses or facilities;
- reductions in our operating effectiveness due to workforce disruptions resulting from “shelter-in-place” and “stay-at-home” orders, and the unavailability of key personnel necessary to conduct our business activities; and
- volatility in the global financial markets, which could have a negative impact on our ability to access capital and additional sources of financing in the future.

The situation surrounding COVID-19 remains fluid, and given its inherent uncertainty, the pandemic may have an adverse impact on our business in the near term. Should these conditions persist for a prolonged period, the COVID-19 pandemic, including any of the above factors and others that are currently unknown, may have a material adverse effect on our business, employees, liquidity, financial condition, results of operations and cash flows. In addition, we cannot predict the impact that COVID-19 will have on our customers and suppliers, and any adverse impacts on these parties may have a material adverse impact on our business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuances of Common Stock. On April 23, 2020, 884 unregistered shares of our common stock, valued in the aggregate at \$23,974 were issued to directors of the Company who elected to receive a portion of their director retainer fee in stock in lieu of cash. The shares were issued pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933 for an issuance not involving a public offering.

Purchases of Common Stock. The Company did not repurchase any shares of its common stock during the period from April 1, 2020 through June 30, 2020.

ITEM 6. EXHIBITS

Number	Description
10.1	MYR Group Inc. 2017 Long-Term Incentive Plan (Amended and Restated as of April 23, 2020), incorporated by reference to exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-08325), filed with the SEC on April 27, 2020⁺
31.1	Certification of Chief Executive Officer pursuant to SEC Rule 13a-14(a)/15d-14(a)[†]
31.2	Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a)/15d-14(a)[†]
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350[†]
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350[†]
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

[†] Filed herewith

⁺ Indicates management contract or compensatory plan or arrangement.

* Electronically filed

SIGNATURE

Pursuant to the requirements 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.

July 29, 2020

MYR GROUP INC.
(Registrant)

/s/ BETTY R. JOHNSON
Betty R. Johnson
Senior Vice President, Chief Financial Officer and
Treasurer

CERTIFICATIONS

Certification of Principal Executive Officer

I, Richard S. Swartz, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of MYR Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the Financial Statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 29, 2020

/s/ RICHARD S. SWARTZ, JR.

(Principal Executive Officer)
Chief Executive Officer and President

CERTIFICATIONS

Certification of Principal Financial Officer

I, Betty R. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MYR Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the Financial Statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 29, 2020

/s/ BETTY R. JOHNSON

(Principal Financial Officer)
Senior Vice President, Chief Financial Officer and Treasurer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER,
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Richard S. Swartz, Jr., Chief Executive Officer and President of MYR Group Inc. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Quarterly Report on Form 10-Q for the quarter and six months ended June 30, 2020 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 29, 2020

/s/ RICHARD S. SWARTZ, JR.

Chief Executive Officer and President

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Betty R. Johnson, Senior Vice President, Chief Financial Officer and Treasurer of MYR Group, Inc. (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Quarterly Report on Form 10-Q for the quarter and six months ended June 30, 2020 of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 29, 2020

/s/ BETTY R. JOHNSON

Senior Vice President, Chief Financial Officer and Treasurer
