MASTEC INC
Form 10-Q
October 31, 2013
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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 September 30, 2013
Commission File Number 001-08106

MasTec, Inc.	
(Exact Name of Registrant as Specified in Its Charter)	
Florida	65-0829355
(State or Other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
800 S. Douglas Road, 12th Floor, Coral Gables, FL	33134
(Address of Principal Executive Offices)	(Zip Code)
(305) 599-1800	
(Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Act.) Yes ¨ No þ
As of October 28, 2013, MasTec, Inc. had 77,242,037 shares of common stock, $0.10 par value, outstanding.

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FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2013

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenue	$1,269,385	$1,067,300	$3,165,657	$2,794,431
Costs of revenue, excluding depreciation and amortization	1,081,132	924,304	2,695,287	2,445,056
Depreciation and amortization	37,756	22,645	103,111	65,125
General and administrative expenses	58,976	42,514	159,761	118,192
Interest expense, net	12,666	9,446	34,549	27,883
Loss on extinguishment of debt	—	—	5,624	—
Other (income) expense, net	(2,778)	8,815	(3,283)	7,989
Income from continuing operations before provision for income taxes	$81,633	$59,576	$170,608	$130,186
Provision for income taxes	(31,698)	(23,478)	(65,822)	(51,229)
Net income from continuing operations before non-controlling interests	$49,935	$36,098	$104,786	$78,957
Discontinued operations:				
Net loss from discontinued operations, including loss on disposal and impairment charges (See Note 4)	$(3,735)	$(9,281)	$(5,165)	$(7,881)
Net income	$46,200	$26,817	$99,621	$71,076
Net income (loss) attributable to non-controlling interests	62	(4)	172	(9)
Net income attributable to MasTec, Inc.	$46,138	$26,821	$99,449	$71,085
Earnings per share: (1) (See Note 2)				
Basic earnings (loss) per share:				
Continuing operations	$0.65	$0.47	$1.36	$1.00
Discontinued operations	(0.05)	(0.12)	(0.07)	(0.10)
Total basic earnings per share	$0.60	$0.35	1.29	0.90
Basic weighted average common shares outstanding	77,093	76,194	76,816	79,009
Diluted earnings (loss) per share:				
Continuing operations	$0.59	$0.45	$1.24	$0.97
Discontinued operations	(0.04)	(0.12)	(0.06)	(0.10)
Total diluted earnings per share	$0.54	$0.34	$1.18	$0.87
Diluted weighted average common shares outstanding	85,464	79,526	84,733	81,982

(1) Earnings per share tables may contain slight summation differences due to rounding.

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

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MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$46,200	$26,817	$99,621	$71,076
Changes in foreign currency items (See Note 14)	2,936	2,176	(3,839)	2,304
Changes in value of available for sale securities, net of tax (See Note 14)	$(92)	$388	$(558)	$339
Comprehensive income	$49,044	$29,381	$95,224	$73,719
Comprehensive income (loss) attributable to non-controlling interests	$62	$(4)	$172	$(9)
Comprehensive income attributable to MasTec, Inc.	$48,982	$29,385	$95,052	$73,728

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

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MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$2,848	$26,382
Accounts receivable, net of allowance	1,225,122	877,214
Inventories	63,255	83,939
Prepaid expenses and other current assets, including discontinued operations (See Note 4)	41,091	62,106
Total current assets	$1,332,316	$1,049,641
Property and equipment, net	504,313	350,192
Goodwill	891,266	824,953
Other intangible assets, net	172,833	137,020
Other long-term assets, including discontinued operations (See Note 4)	53,610	54,160
Total assets	$2,954,338	$2,415,966
Liabilities and Shareholders’ Equity		
Current liabilities:		
Current maturities of long-term debt	$53,343	$52,596
Accounts payable	475,742	400,833
Accrued salaries and wages	81,587	31,522
Other accrued expenses	64,645	45,814
Acquisition-related contingent consideration, current	57,821	19,216
Billings in excess of costs and earnings	109,655	123,435
Other current liabilities, including discontinued operations (See Note 4)	39,436	40,377
Total current liabilities	$882,229	$713,793
Acquisition-related contingent consideration, net of current portion	119,502	135,712
Long-term debt	779,920	546,323
Long-term deferred tax liabilities, net	151,044	119,388
Other liabilities	42,556	38,875
Total liabilities	$1,975,251	$1,554,091
Commitments and Contingencies (See Note 17)		
Shareholders’ equity:		
Preferred stock, $1.00 par value; authorized shares - 5,000,000; issued and outstanding shares – none	$—	$—
Common stock, $0.10 par value; authorized shares - 145,000,000; issued shares - 86,686,385 and 85,915,552 as of September 30, 2013 and December 31, 2012, respectively	8,669	8,592
Capital surplus	819,073	803,166
Contributed shares (See Note 12)	6,002	—
Retained earnings	300,366	200,915
Accumulated other comprehensive loss	(9,898)	(5,501)
Treasury stock, at cost; 9,467,286 shares as of both September 30, 2013 and December 31, 2012	(150,000)	(150,000)
Total MasTec, Inc. shareholders’ equity	$974,212	$857,172

Non-controlling interests	$4,875	$4,703
Total shareholders’ equity	$979,087	$861,875
Total liabilities and shareholders’ equity	$2,954,338	$2,415,966

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

MASTEC, INC.
CONDENSED UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	$99,621	$71,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,111	65,767
Non-cash stock-based compensation expense	9,647	3,351
Non-cash interest expense	6,890	6,424
Write-off of unamortized financing costs on redeemed debt	1,508	—
Provision for losses on construction projects, net	2,125	(10,331)
Provisions for losses on assets	6,300	4,226
Gains on sales of assets	(4,884)	(1,569)
Excess tax benefit from non-cash stock-based compensation	(4,446)	(302)
Loss on disposal and impairment charges, discontinued operations	6,036	12,922
Changes in assets and liabilities, net of assets acquired and liabilities assumed:		
Accounts receivable	(271,010)	(233,220)
Inventories	20,484	8,243
Deferred tax assets and liabilities, net	9,783	(3,555)
Other assets, current and non-current portion	19,117	(6,383)
Accounts payable and accrued expenses	126,784	176,289
Billings in excess of costs and earnings	(19,776)	(3,367)
Other liabilities, current and non-current portion	13,701	25,099
Net cash provided by operating activities	$124,991	$114,670
Cash flows (used in) provided by investing activities:		
Cash paid for acquisitions, net, including contingent consideration	(159,446)	(17,496)
Capital expenditures	(101,411)	(50,331)
Proceeds from sale of property and equipment	8,288	5,808
Proceeds from sale or redemption of investments	5,025	—
Proceeds from disposal of business, net of cash divested	(4,332)	97,728
Payments for other investments, net	(1,174)	(284)
Net cash (used in) provided by investing activities	$(253,050)	$35,425
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of 4.875% senior notes	400,000	—
Repayment of 7.625% senior notes	(150,000)	—
Proceeds from credit facility	766,154	631,815
Repayments of credit facility	(860,070)	(681,815)
Repayments of other borrowings	(24,246)	(15,510)
Proceeds from (repayments of) book overdrafts	2,791	(5,645)
Payments of capital lease obligations	(32,214)	(14,806)
Proceeds from stock option exercises and other share-based awards	9,231	1,445
Excess tax benefit from non-cash stock-based compensation	4,446	302
Purchases of treasury stock	—	(75,000)
Payments for debt extinguishment, call premiums	(4,116)	—
Payments of financing costs	(7,718)	(113)
Net cash provided by (used in) financing activities	$104,258	$(159,327)

Net decrease in cash and cash equivalents	(23,801)	(9,232)
Net effect of currency translation on cash	(118)	135
Cash and cash equivalents - beginning of period	26,767	20,279
Cash and cash equivalents - end of period	$2,848	$11,182
Cash and cash equivalents of discontinued operations	$—	$710
Cash and cash equivalents of continuing operations	$2,848	$10,472
Supplemental cash flow information:		
Interest paid	$30,851	$20,879
Income taxes paid, net of refunds	$49,722	$37,219
Receipt of inventory prepaid in prior year	$—	$12,005
Supplemental disclosure of non-cash investing and financing information:		
Equipment acquired under capital lease	$82,737	$29,917
Equipment acquired under financing arrangements	$24,100	$4,887
Equipment sold for receivable	$9,683	$—
Value of shares contributed by shareholder, former owner of acquired business	$6,002	$—

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

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MASTEC, INC.
NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business, Basis of Presentation and Significant Accounting Policies

Nature of the Business

MasTec, Inc. (collectively with its subsidiaries, “MasTec” or the “Company”) is a leading infrastructure construction company operating mainly throughout North America across a range of industries. The Company’s primary activities include the engineering, building, installation, maintenance and upgrade of energy, utility and communications infrastructure, such as: electrical utility transmission and distribution; natural gas and petroleum pipeline infrastructure; wireless, wireline and satellite communications; power generation, including renewable energy infrastructure; and industrial infrastructure. MasTec’s customers are primarily in these industries.

Basis of Presentation

The accompanying condensed unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Pursuant to these rules and regulations, certain information and footnote disclosures normally included in the annual consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. The accompanying condensed consolidated balance sheet as of December 31, 2012 is derived from the Company’s audited financial statements as of that date. Because certain information and footnote disclosures have been condensed or omitted, these condensed unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2012 contained in the Company’s most recent Annual Report on Form 10-K. In management’s opinion, all normal and recurring adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included. Certain prior year amounts have been reclassified to conform to the current period presentation. Interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. The Company believes that the disclosures made in these condensed unaudited consolidated financial statements are adequate to make the information not misleading.

Principles of Consolidation

The accompanying condensed unaudited consolidated financial statements include MasTec, Inc. and its subsidiaries and include the accounts of all majority-owned subsidiaries over which the Company exercises control and, when applicable, entities in which the Company has a controlling financial interest. Other parties’ interests in companies for which MasTec exercises control and has a controlling financial interest are reported as non-controlling interests within shareholders’ equity. Net income or loss attributable to non-controlling interests is reported as a separate line item below net income. The Company’s investments in entities in which the Company does not have a controlling interest, but has the ability to exert significant influence, are accounted for using the equity method of accounting. Equity method investments are recorded as long-term assets in the condensed unaudited consolidated balance sheets. Income or loss from these investments is recorded within other income or expense, net, in the condensed unaudited consolidated statements of operations. The cost method is used for investments in entities over which the Company does not have the ability to exert significant influence. All significant intercompany balances and transactions have been eliminated in consolidation.

Management Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Key estimates include: the recognition of revenue, in particular, on long-term construction contracts, including estimates of costs to complete projects and provisions for contract losses; allowances for doubtful accounts; accrued self-insured claims; estimated fair values of goodwill and intangible assets, acquisition-related contingent consideration, assets and liabilities classified as held-for-sale, convertible debt obligations, available for sale securities and investments in cost and equity method investees; asset lives used in computing depreciation and amortization, including amortization of intangible assets; accounting for income taxes; and the estimated impact of contingencies and ongoing litigation.

While management believes that such estimates are fair when considered in conjunction with the consolidated financial position and results of operations taken as a whole, actual results could differ from those estimates and such differences may be material to the condensed unaudited consolidated financial statements.

Significant Accounting Policies

Except for adoption of the accounting pronouncements discussed below, there have been no material changes to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

New accounting pronouncements

Recently Issued Accounting Standards, Not Adopted as of September 30, 2013

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-05”). The objective of ASU 2013-05 is to resolve diversity in practice regarding the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years,

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beginning after December 15, 2013. The Company is currently evaluating the potential impact of this ASU on its condensed unaudited consolidated financial statements.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-04”). ASU 2013-04 provides guidance related to the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in ASU 2013-04 also requires an entity to disclose the nature and amount of the obligation. ASU 2013-05 is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Retrospective application is required for all periods presented. The Company is currently evaluating the potential impact of this ASU on its condensed unaudited consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-11”). ASU 2013-11 provides guidance on the presentation in the financial statements of an unrecognized tax benefit, or a portion of an unrecognized tax benefit, and explains that unrecognized tax benefits should be presented as a reduction to deferred tax assets for net operating loss carryforwards, similar tax losses or tax credit carryforwards. To the extent a net operating loss carryforward, similar tax loss or tax credit carryforward is not available as of the reporting date under the tax law of the applicable jurisdiction, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists as of the reporting date. ASU 2013-11 is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company is currently evaluating the potential impact of this ASU on its condensed unaudited consolidated financial statements.

Recently Adopted Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (“ASU 2013-02”). The amendment requires disclosure of information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, disclosure is required, either on the face of the statement where net income is presented, or in the notes, of significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The new requirements are effective for public companies in interim and annual reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 as of January 1, 2013. See Note 14 - Shareholders' Equity for related disclosures.

Note 2 – Earnings Per Share

Basic earnings per share is computed by dividing earnings available to MasTec’s common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing earnings by the number of fully diluted shares, which includes the effect of dilutive potential issuances of common shares as determined using earnings from continuing operations. The potential issuance of common shares upon the exercise, conversion or vesting of outstanding stock options and unvested restricted share awards, as calculated under the treasury stock method, as well as shares associated with the Company’s outstanding convertible debt securities, may be dilutive.

The following table provides details underlying the Company's earnings per share calculations for the periods indicated (in thousands):

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	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to MasTec:				
Basic net income from continuing operations [1]	$49,960	$36,098	$104,702	$78,957
Interest expense, net of tax, 2009 Convertible Notes	79	78	235	234
Diluted net income from continuing operations	$50,039	$36,176	$104,937	$79,191
Net loss from discontinued operations [1]	(3,822)	(9,277)	(5,252)	(7,872)
Diluted net income attributable to MasTec	$46,217	$26,899	$99,685	$71,319
Weighted average shares outstanding:				
Basic weighted average shares outstanding	77,093	76,194	76,816	79,009
Dilutive common stock equivalents	775	887	774	842
Dilutive premium shares, 2011 Convertible Notes	6,790	1,639	6,337	1,325
Dilutive shares, 2009 Convertible Notes	806	806	806	806
Diluted weighted average shares outstanding	85,464	79,526	84,733	81,982

(1) Calculated as total net income less amounts attributable to non-controlling interests.

During the nine month period ended September 30, 2012, the Company repurchased 4.9 million shares of its common stock for an aggregate purchase price of $75.0 million. Repurchased shares are held in the Company's treasury.

Outstanding Convertibles Notes - Diluted Share Impact

The Company has $215 million principal amount of senior convertible notes outstanding, composed of $202.3 million of senior convertible notes issued in 2011 (the "2011 Convertible Notes") and approximately $12.6 million of senior convertible notes issued in 2009 (the "2009 Convertible Notes"). Dilutive shares associated with the 2009 Convertible Notes are attributable to the underlying principal amounts. As the Company’s weighted average stock price for the three and nine month periods ended September 30, 2013 and 2012 exceeded the conversion prices of the 2011 Convertible Notes, dilutive shares associated with the 2011 Convertible Notes, which are attributable to the weighted average premium value, in shares, of the conversion shares underlying the 2011 Convertible Notes in excess of the respective principal amounts thereof, have been included in the Company's share count for the corresponding periods.

The 2011 Convertible Notes consist of $105.3 million principal amount of 4.0% senior convertible notes, convertible at $15.76 per share (the "2011 4.0% Notes") and $97.0 million principal amount of 4.25% senior convertible notes, convertible at $15.48 per share (the "2011 4.25% Notes"). The calculations underlying the number of premium shares included in the Company’s diluted share count for the periods indicated are as follows (in thousands, except per share amounts):

	As of and for the Three Months Ended September 30,				As of and for the Nine Months Ended September 30,			
	2013		2012		2013		2012	
	2011 4.0% Notes	2011 4.25% Notes	2011 4.0% Notes	2011 4.25% Notes	2011 4.0% Notes	2011 4.25% Notes	2011 4.0% Notes	2011 4.25% Notes
Number of conversion shares, principal amount	6,683	6,268	6,683	6,268	6,683	6,268		