TUTOR PERINI Corp
Form 10-Q
May 07, 2015

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 March 31, 2015

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: 1-6314

Tutor Perini Corporation

(Exact name of registrant as specified in its charter)

MASSACHUSETTS	04-1717070
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

15901 OLDEN STREET, SYLMAR, CALIFORNIA 91342-1093

(Address of principal executive offices)

(Zip code)

(818) 362-8391

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate website, 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 No

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

Large accelerated filer	Accelerated filer
Non-Accelerated filer	Smaller reporting company

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

The number of shares of common stock, $1.00 par value per share, of the registrant outstanding at May 1, 2015 was 49,001,429.

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

INDEX

Table of Contents

Part I. - Financial Information

TUTOR PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS

MARCH 31, 2015 AND DECEMBER 31, 2014

(Unaudited-in thousands, except share data)

	March 31, 2015	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 145,958	$ 135,583
Restricted cash	44,093	44,370
Accounts receivable, including retainage	1,394,120	1,479,504
Costs and estimated earnings in excess of billings	795,510	726,402
Deferred income taxes	17,962	17,962
Other current assets	74,367	68,735
Total current assets	2,472,010	2,472,556
PROPERTY AND EQUIPMENT (net of accumulated depreciation of $228,211 in 2015 and $220,028 in 2014)	523,622	527,602
OTHER ASSETS:		
Goodwill	585,006	585,006
Intangible assets, net	99,311	100,254
Other	86,531	87,897
Total assets	$ 3,766,480	$ 3,773,315

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

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS (continued)

MARCH 31, 2015 AND DECEMBER 31, 2014

(Unaudited-in thousands, except share data)

	March 31, 2015	December 31, 2014
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 87,600	$ 81,292
Accounts payable, including retainage	802,191	798,174
Billings in excess of costs and estimated earnings	286,042	319,296
Accrued expenses and other current liabilities	152,916	159,814
Total current liabilities	1,328,749	1,358,576
LONG-TERM DEBT, less current maturities	795,742	784,067
DEFERRED INCOME TAXES	150,018	150,371
OTHER LONG-TERM LIABILITIES	113,507	114,796
Total liabilities	2,388,016	2,407,810
CONTINGENCIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY:		
Preferred stock, $1 par value:		
Authorized – 1,000,000 shares		
Issued and outstanding – none	—	—
Common stock - $1 par value: 75,000,000 shares authorized; Shares issued and outstanding: 49,001,429 shares and 48,671,492 shares	49,001	48,671
Additional paid-in capital	1,033,997	1,025,941
Retained earnings	337,637	332,511
Accumulated other comprehensive loss	(42,171)	(41,618)
Total stockholders' equity	1,378,464	1,365,505
Total liabilities and stockholders' equity	$ 3,766,480	$ 3,773,315

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

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited-in thousands, except per share data)

	Three Months Ended March 31, 2015	2014
Revenues	$ 1,066,465	$ 955,233
Cost of operations	975,706	849,886
Gross profit	90,759	105,347
General and administrative expenses	70,675	63,850
INCOME FROM CONSTRUCTION OPERATIONS	20,084	41,497
Other (expense) income, net	(754)	(3,373)
Interest expense	(11,125)	(10,831)
Income before income taxes	8,205	27,293
Provision for income taxes	(3,079)	(11,354)
NET INCOME	$ 5,126	$ 15,939
BASIC EARNINGS PER COMMON SHARE	$ 0.11	$ 0.33
DILUTED EARNINGS PER COMMON SHARE	$ 0.10	$ 0.33
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
BASIC	48,747	48,440
Effect of dilutive stock options and restricted stock units	796	490
DILUTED	49,543	48,930

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

5

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited-in thousands)

	Three Months Ended March 31,	
	2015	2014
NET INCOME	$ 5,126	$ 15,939
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation	(964)	(490)
Change in fair value of investments	(16)	188
Change in fair value of interest rate swap	74	138
Other comprehensive income before taxes	(906)	(164)
INCOME TAX EXPENSE (BENEFIT):		
Foreign currency translation	(376)	(204)
Change in fair value of investments	(6)	7
Change in fair value of interest rate swap	29	57
Income tax expense	(353)	(140)
NET OTHER COMPREHENSIVE INCOME (LOSS)	(553)	(24)
TOTAL COMPREHENSIVE INCOME	$ 4,573	$ 15,915

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

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2015

(Unaudited-in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance - December 31, 2014	$ 48,671	$ 1,025,941	$ 332,511	$ (41,618)	$ 1,365,505
Net income	—	—	5,126	—	5,126
Other comprehensive income/(loss)	—	—	—	(553)	(553)
Total comprehensive income					4,573
Stock-based compensation expense	—	9,159	—	—	9,159
Issuance of common stock, net	330	(1,103)	—	—	(773)
Balance - March 31, 2015	$ 49,001	$ 1,033,997	$ 337,637	$ (42,171)	$ 1,378,464

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

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	THREE MONTHS ENDED MARCH 31, 2015		2014	
Cash Flows from Operating Activities:				
Net income	$	5,126	$	15,939
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization		10,594		14,659
Stock-based compensation expense		9,159		5,429
Deferred income taxes		—		45
(Gain) loss on sale of property and equipment		(276)		427
Other long-term liabilities		2,381		3,494
Other non-cash items		(2,227)		(427)
Changes in other components of working capital		(27,081)		(80,696)
NET CASH USED IN OPERATING ACTIVITIES		(2,324)		(41,130)
Cash Flows from Investing Activities:				
Acquisition of property and equipment excluding certain financed purchases		(5,691)		(8,352)
Proceeds from sale of property and equipment		798		1,417
Change in restricted cash		277		(675)
NET CASH USED BY INVESTING ACTIVITIES		(4,616)		(7,610)

Cash Flows from Financing Activities:				
Proceeds from debt		280,200		178,038
Repayment of debt		(262,112)		(113,551)
Business acquisition-related payments		—		(1,031)
Issuance of common stock and effect of cashless exercise		(773)		(1,575)
NET CASH PROVIDED BY FINANCING ACTIVITIES		17,315		61,881
Net Increase in Cash and Cash Equivalents		10,375		13,141
Cash and Cash Equivalents at Beginning of Year		135,583		119,923
Cash and Cash Equivalents at End of Period	$	145,958	$	133,064
Supplemental Disclosure of Cash Paid For:				
Interest		7,616		5,383
Income taxes	$	8,057	$	11,703
Supplemental Disclosure of Non-cash Transactions:				
Property and equipment acquired through financing arrangements not included above		—		22,332

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

Table of Contents

TUTOR PERINI CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(1) Basis of Presentation

The unaudited consolidated condensed financial statements presented herein include the accounts of Tutor Perini Corporation and its wholly owned subsidiaries (“Tutor Perini” or the “Company”). The Company’s interests in construction joint ventures are accounted for using the proportionate consolidation method whereby the Company’s proportionate share of each joint venture’s assets, liabilities, revenues and cost of operations are included in the appropriate classifications in the consolidated financial statements. All intercompany transactions and balances have been eliminated in consolidation.

The unaudited consolidated condensed financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States as codified in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification. These statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

In the opinion of management, the accompanying unaudited consolidated condensed financial statements include all adjustments, consisting only of normal recurring adjustments necessary to present fairly the Company’s financial position as of March 31, 2015 and December 31, 2014, results of operations and comprehensive income, for the three months ended March 31, 2015 and 2014, and cash flows for the three months ended March 31, 2015 and 2014. The results of the three months ended March 31, 2015 are not indicative of the results that may be expected for the year ending December 31, 2015 because, among other reasons, such results can vary depending on the timing of progress achieved and changes in estimated profitability of projects being reported.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures.

(2) Significant Accounting Policies

The significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note 1 to the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU addresses when an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, using one of two retrospective application methods. Early application is not permitted. In April 2015, FASB proposed to defer the effective date of the ASU to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, clarifying the recognition timing of expense associated with certain performance based stock awards when the performance target that affects vesting could be achieved after the requisite service period. This ASU is an update to FASB ASC Topic 718 and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015 with earlier adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810). The goal of this ASU is to reduce the potentially distortive impact on reporting entities' consolidated financial statements resulting from the consolidation of certain legal entities, including joint ventures and variable interest entities. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30). This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for fiscal years, and interim periods within those years,

Table of Contents

beginning after December 15, 2015. The adoption of this ASU is not expected to have a material impact on the Company’s financial statements.

Use of and Changes in Estimates

The Company’s construction business involves making significant estimates and assumptions in the normal course of business relating to its contracts and its joint venture contracts. Management focuses on evaluating the performance of contracts individually. These estimates can vary in the normal course of business as projects progress, when estimated productivity assumptions change based on experience to date and uncertainties are resolved. Change orders and claims, as well as changes in related estimates of costs to complete, are considered revisions in estimates. The Company uses the cumulative catch-up method applicable to construction contract accounting to account for revisions in estimates. The impact on operating margin in a reporting period and future periods from a change in estimate will depend on the stage of contract completion.

There were no significant changes in contract estimates at completion that impacted gross profit for the three months ended March 31, 2015 and 2014.

(3) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less when acquired.

Cash and cash equivalents, as reported in the accompanying Consolidated Condensed Balance Sheets, consist of amounts held by the Company that are available for general corporate purposes and the Company’s proportionate share of amounts held by construction joint ventures that are available only for joint venture-related uses, including future distributions to joint venture partners. Restricted cash is primarily held to secure insurance-related contingent obligations, such as insurance claim deductibles, in lieu of letters of credit.

Cash and cash equivalents and restricted cash consisted of the following:

	March 31, 2015	December 31, 2014
	(in thousands)	
Corporate cash and cash equivalents (available for general corporate purposes)	$ 61,903	$ 40,846
Company's share of joint venture cash and cash equivalents (available only for joint venture purposes, including future distributions)	84,055	94,737
Total Cash and Cash Equivalents	$ 145,958	$ 135,583
Restricted Cash	$ 44,093	$ 44,370

(4) Costs and estimated earnings in excess of billings

Costs and estimated earnings in excess of billings related to the Company’s contracts and joint venture contracts consisted of the following:

	March 31, 2015	December 31, 2014
	(in thousands)	
Unbilled costs and profits incurred to date*	$ 241,631	$ 253,078
Unapproved change orders	235,242	161,375
Claims	318,637	311,949
	$ 795,510	$ 726,402

10

* Represents the excess of contract costs and profits recognized to date on the percentage of completion accounting method over the amount of contract billings to date on certain contracts.

Of the balance of “Unapproved change orders” and “Claims” included above in costs and estimated earnings in excess of billings at March 31, 2015 and December 31, 2014, approximately $43.4 million and $38.4 million, respectively, are the amounts subject to pending litigation or dispute resolution proceedings as described in Note 7 — Contingencies and Commitments. These amounts are management’s estimate of the probable cost recovery from the disputed claims considering such factors as evaluation of entitlement, settlements reached to date and experience with the customer. In the event that future facts and circumstances, including the resolution of disputed claims, cause a reduction in the aggregate amount of the estimated probable cost recovery from the disputed claims, the amount of such reduction will be recorded against earnings in the relevant future period.

The prerequisite for billing “Unbilled costs and profits incurred to date” is provided in the defined billing terms of each of the applicable contracts. The prerequisite for billing “Unapproved change orders” or “Claims” is the final resolution and agreement between the parties.

(5) Fair Value Measurements

The Company measures certain financial instruments, including cash and cash equivalents, such as money market funds, at fair value. The fair values were determined based on a three-tier valuation hierarchy for disclosure of significant inputs. These hierarchical tiers are defined as follows:

Level 1 — inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — inputs are other than quoted prices in active markets that are either directly or indirectly observable through market corroboration.

Level 3 — inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions based on the best information available in the circumstances.

The carrying amount of cash and cash equivalents approximates fair value due to the short-term nature of these items. The carrying value of receivables, payables and other amounts arising out of normal contract activities, including retainage, which may be settled beyond one year, is estimated to approximate fair value. Of the Company's long-term debt, the fair values of the fixed rate senior unsecured notes as of March 31, 2015 and December 31, 2014 were $312.0 million and $310.3 million, respectively, compared to the carrying value of $298.8 million as of both March 31, 2015 and December 31, 2014. The fair value of the senior unsecured notes was estimated using Level 1 inputs based on market quotations including broker quotes or interest rates for the same financial instruments at March 31, 2015 and December 31, 2014. The carrying values of the remaining balance of the Company's long-term debt of $584.5 million and $566.6 million at March 31, 2015 and December 31, 2014, respectively, were estimated to approximate their fair values.

The following is a summary of financial statement items carried at estimated fair values measured on a recurring basis as of the dates presented:

		Fair Value Measurements Using		
At March 31, 2015	Total Carrying Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents (1)	$ 145,958	$ 145,958	$ —	$ —
Restricted cash (1)	44,093	44,093	—	—
Investments in lieu of retainage (2)	31,425	22,670	8,755	—
Total	$ 221,476	$ 212,721	$ 8,755	$ —
Liabilities:				
Interest rate swap contract (3)	$ 305	$ —	$ 305	$ —
Contingent consideration (4)	25,560	—	—	25,560
	$ 25,865	$ —	$ 305	$ 25,560

Table of Contents

	Fair Value Measurements Using		
		Significant	
	Quoted prices	other	Significant
Total	in active	observable	unobservable
Carrying	markets	inputs	