

INFRASOURCE SERVICES INC

Form 10-Q

November 03, 2006

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

Form 10-Q

- þ** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006
- OR**
- o** **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 001-32164

INFRASOURCE SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

03-0523754
*(I.R.S. Employer
Identification No.)*

100 West Sixth Street, Suite 300, Media, PA
(Address of principal executive offices)

19063
(Zip Code)

(610) 480-8000

(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 **o**

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

Large accelerated filer **o** Accelerated filer **þ** Non-accelerated filer **o**

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

At October 25, 2006 there were 40,048,059 shares of InfraSource Services, Inc. Common Stock, par value of \$.001, outstanding.

For the Quarter Ended September 30, 2006

FORM 10-Q

INFRASOURCE SERVICES, INC. AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****INFRASOURCE SERVICES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

	December 31, 2005	September 30, 2006
	(Unaudited) (In thousands, except share data)	
Current assets:		
Cash and cash equivalents	\$ 24,287	\$ 15,834
Contract receivables (less allowances for doubtful accounts of \$3,184 and \$2,369, respectively)	136,610	164,988
Costs and estimated earnings in excess of billings	84,360	89,970
Inventories	6,747	6,769
Deferred income taxes	4,683	6,152
Other current assets	7,678	5,338
Current assets – discontinued operations	3,033	2,033
Total current assets	267,398	291,084
Property and equipment (less accumulated depreciation of \$55,701 and \$73,822, respectively)	143,881	147,323
Goodwill	138,054	138,857
Intangible assets (less accumulated amortization of \$19,861 and \$20,609, respectively)	1,884	1,136
Deferred charges and other assets, net	10,501	6,619
Assets held for sale		1,245
Noncurrent assets – discontinued operations	319	1,749
Total assets	\$ 562,037	\$ 588,013
Current liabilities:		
Current portion of long-term debt	\$ 889	\$ 46
Other liabilities – related parties	11,299	1,227
Accounts payable	43,570	47,980
Accrued compensation and benefits	20,402	32,830
Other current and accrued liabilities	20,435	26,106
Accrued insurance reserves	30,550	34,907
Billings in excess of costs and estimated earnings	15,012	15,683
Deferred revenues	6,590	6,300

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Current liabilities	discontinued operations	1,501	
Total current liabilities		150,248	165,079
Long-term debt, net of current portion		83,019	70,019
Deferred revenues		17,826	17,116
Other long-term liabilities	related party	420	
Deferred income taxes		3,320	3,683
Other long-term liabilities		5,298	5,055
Non-current liabilities	discontinued operations	50	
Total liabilities		260,181	260,952
Commitments and contingencies			
Shareholders' equity:			
Preferred stock, \$.001 par value (authorized	12,000,000 shares; 0 shares issued and outstanding)		
Common stock \$.001 par value (authorized	120,000,000 shares; issued 39,396,694 and 39,911,185 shares, respectively, and outstanding		
	39,366,824 and 39,881,315, respectively)	39	40
Treasury stock at cost (29,870 shares)		(137)	(137)
Additional paid-in capital		278,387	283,459
Deferred compensation		(1,641)	
Retained earnings		24,640	43,231
Accumulated other comprehensive income		568	468
Total shareholders' equity		301,856	327,061
Total liabilities and shareholders' equity		\$ 562,037	\$ 588,013

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

Table of Contents**INFRASOURCE SERVICES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations**

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2006
	(Unaudited)			
	(In thousands, except per share data)			
Contract revenues	\$ 226,575	\$ 275,880	\$ 632,645	\$ 744,416
Cost of revenues	194,857	230,832	562,230	634,642
Gross profit	31,718	45,048	70,415	109,774
Selling, general and administrative expenses	20,017	25,910	53,851	71,214
Merger related costs	66		218	
Provision for uncollectible accounts	61	5	145	36
Amortization of intangible assets	1,001	254	4,311	748
Income from operations	10,573	18,879	11,890	37,776
Interest income	122	229	328	638
Interest expense	(2,170)	(1,404)	(5,872)	(5,197)
Write-off of deferred financing costs				(4,296)
Other income, net	735	882	5,749	2,445
Income from continuing operations before income taxes	9,260	18,586	12,095	31,366
Income tax expense	3,994	7,604	5,188	12,770
Income from continuing operations	5,266	10,982	6,907	18,596
Discontinued operations:				
Income (loss) from discontinued operations (net of income tax provision (benefit) of \$(330), \$(110), \$(557) and \$9, respectively)	(490)	(151)	(799)	28
Gain (loss) on disposition of discontinued operation (net of income tax provision (benefit) of \$1,432, \$(22), \$1,432 and \$(22), respectively)	1,790	(33)	1,790	(33)

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Net income	\$	6,566	\$	10,798	\$	7,898	\$	18,591
Basic income (loss) per share:								
Income from continuing operations	\$	0.14	\$	0.28	\$	0.18	\$	0.47
Income (loss) from discontinued operations		(0.01)		(0.01)		(0.02)		
Gain on disposition of discontinued operation		0.04				0.04		
Net income	\$	0.17	\$	0.27	\$	0.20	\$	0.47
Weighted average basic common shares outstanding		39,139		39,778		39,059		39,657
Diluted income (loss) per share:								
Income from continuing operations	\$	0.13	\$	0.27	\$	0.17	\$	0.46
Income (loss) from discontinued operations		(0.01)				(0.01)		
Gain on disposition of discontinued operation		0.04				0.04		
Net income	\$	0.16	\$	0.27	\$	0.20	\$	0.46
Weighted average diluted common shares outstanding		40,090		40,308		40,008		40,249

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

Table of Contents**INFRASOURCE SERVICES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Shareholders' Equity**

	Common Stock		Treasury Stock		Paid-In Capital		Deferred Compensation	Fair Value Adjustment on Derivatives	Accumulated Other Comprehensive Income - Foreign Currency Translation Adjustment	Retained Earnings	Total
	Shares	Amount	Shares	Amount	(Unaudited)	(Unaudited)					
(In thousands, except share amounts)											
Balance as of December 31, 2005	39,396,694	\$ 39	(29,870)	\$ (137)	\$ 278,387	\$ (1,641)	\$ 480	\$ 88	\$ 24,640	\$ 301,856	
Issuance of early exercised stock options	191,673				881						881
Reclassification of deferred compensation stock options exercised and vested					(1,641)	1,641					
Restricted stock	248,317	1			1,521						1,522
Income tax benefit from stock options exercised					839						839
Issuance of shares under employee stock purchase plan	74,501				698						698
Stock compensation expense					2,774						2,774
Net income										18,591	18,591
Other comprehensive income (loss)							(480)	380			(100)
	39,911,185	\$ 40	(29,870)	\$ (137)	\$ 283,459	\$	\$	\$ 468	\$ 43,231	\$ 327,061	

Balance as of
September 30,
2006

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

Table of Contents**INFRASOURCE SERVICES, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2006 (Unaudited) (In thousands)
Cash flows from operating activities:		
Net income	\$ 7,898	\$ 18,591
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Discontinued operations net of taxes	(991)	5
Depreciation	20,624	20,538
Amortization of intangibles	4,311	748
Gain on sale of assets	(1,837)	(2,237)
Deferred income taxes	5,145	(1,727)
Write-off of deferred financing costs		4,296
Reversal of litigation judgment	(4,279)	
Other	(3,184)	3,453
Changes in operating assets and liabilities, net of effects of acquisitions:		
Contract receivables, net	(33,458)	(28,414)
Costs and estimated earnings in excess of billings, net	(45,336)	(4,938)
Inventories and other current assets	2,893	1,590
Deferred charges and other assets	311	616
Current liabilities	11,176	25,928
Other liabilities related parties	(2,988)	36
Other liabilities	(281)	301
Net cash flows provided by (used in) operating activities from continuing operations	(39,996)	38,786
Net cash flows used in operating activities from discontinued operations	(328)	(168)
Net cash flows provided by (used in) operating activities	(40,324)	38,618
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(38)	(10,621)
Proceeds from restricted cash	5,000	
Proceeds from purchase price settlement		324
Proceeds from sales of discontinued operations	7,117	265
Proceeds from sales of equipment	4,091	3,974
Additions to property and equipment	(22,565)	(28,859)
Net cash flows used in investing activities from continuing operations	(6,395)	(34,917)
	(231)	168

Net cash flows provided by (used in) investing activities from discontinued operations

Net cash flows used in investing activities	(6,626)	(34,749)
Cash flows from financing activities:		
Increase in revolving credit facility borrowings	27,000	
Borrowings of long-term debt		75,000
Repayments of long-term debt and capital lease obligations	(679)	(88,843)
Debt issuance costs		(1,356)
Excess tax benefits from stock-based compensation		654
Proceeds from exercise of stock options and employee stock purchase plan	1,368	2,218
Net cash flows provided by (used in) financing activities	27,689	(12,327)
Cash and cash equivalents:		
Net decrease in cash and cash equivalents	(19,261)	(8,458)
Cash and cash equivalents transferred to discontinued operations	559	
Cash and cash equivalents beginning of period	21,222	24,287
Effect of exchange rates on cash		5
Cash and cash equivalents end of period	\$ 2,520	\$ 15,834

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Accounts payable balance related to purchases of property and equipment	\$ 734	\$ 1,907
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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INFRASOURCE SERVICES, INC. AND SUBSIDIARIES

**Notes to Condensed Consolidated Financial Statements
(Unaudited)**

1. Organization and Basis of Presentation

InfraSource Services, Inc. (*InfraSource*) was organized on May 30, 2003 as a Delaware corporation. *InfraSource* and its wholly owned subsidiaries are referred to herein as the Company, we, us, or our. We operate in two business segments. Our Infrastructure Construction Services (*ICS*) segment provides design, engineering, procurement, construction, testing and maintenance services for utility infrastructure. Our ICS customers include electric power utilities, natural gas utilities, telecommunication customers, government entities and heavy industrial companies, such as petrochemical, processing and refining businesses. Our Telecommunication Services (*TS*) segment leases point-to-point telecommunications infrastructure in select markets and provides design, procurement, construction and maintenance services for telecommunications infrastructure. Our TS customers include communication service providers, large industrial and financial services customers, school districts and other entities with high bandwidth telecommunication needs. We operate in multiple service territories throughout the United States and we do not have significant operations or assets outside the United States.

On September 24, 2003, we acquired all of the voting interests of *InfraSource Incorporated* and certain of its wholly owned subsidiaries, pursuant to a merger transaction (the *Merger*). On May 12, 2004, we completed our initial public offering (*IPO*) of 8,500,000 shares of common stock.

At the time of the *IPO*, our principal stockholders were *OCM/GFI Power Opportunities Fund, L.P.* and *OCM Principal Opportunities Fund, L.P.* (collectively, the former Principal Stockholders), both Delaware limited partnerships. In 2006, the former Principal Stockholders and certain other stockholders completed two secondary underwritten public offerings of our common stock. The first occurred on March 24, 2006, in which they sold 13,000,000 shares of our common stock at \$17.50 per share (plus an additional 1,950,000 shares sold following exercise of the underwriters over-allotment option). The second occurred on August 9, 2006, in which they sold 10,394,520 shares of our common stock at \$17.25 per share (plus an additional 559,179 shares sold following exercise of the underwriters over-allotment option). We did not issue any primary shares; therefore, we did not receive any of the proceeds of these offerings. As of October 25, 2006, the former Principal Stockholders own approximately 2% of our common stock.

The accompanying unaudited condensed consolidated financial statements reflect our financial position as of December 31, 2005 and September 30, 2006; our results of operations for the three and nine months ended September 30, 2005 and 2006; and our cash flows for the nine months ended September 30, 2005 and 2006. The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (*SEC*). These financial statements include all adjustments that we consider necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. The December 31, 2005 condensed consolidated balance sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America. The results for interim periods are not necessarily indicative of results to be expected for a full year or future interim periods. These financial statements should be read in conjunction with our financial statements and related notes included in our Report on Form 10-K for the year ended December 31, 2005.

Certain amounts in the accompanying statements have been reclassified for comparative purposes.

2. Summary of Significant Accounting Policies

Share-based compensation

On January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R Share-Based Payment, which requires the measurement and recognition of compensation expense for all share-based awards made to employees and directors including employee stock options, restricted stock and employee stock purchases related to the Employee Stock Purchase Plan (employee stock purchases) based on estimated fair

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(Unaudited)

values. SFAS No. 123R supersedes our previous accounting under Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 Share-Based Payment, relating to SFAS No. 123R. We have applied the provisions of SAB No. 107 in our adoption of SFAS No. 123R.

Prior to the adoption of SFAS No. 123R, we accounted for share-based awards to employees and directors using the intrinsic value method in accordance with APB No. 25 as allowed under SFAS No. 123. Under the intrinsic value method, no share-based compensation expense was recognized in our consolidated statements of operations, other than restricted stock awards and stock options granted to employees and directors below the fair market value of the underlying stock at the grant-date.

We adopted SFAS No. 123R using the modified prospective transition method. Our condensed consolidated financial statements as of and for the three and nine months ended September 30, 2006 include the impact of SFAS No. 123R. In accordance with the modified prospective transition method, our condensed consolidated financial statements for prior periods have not been restated and do not include the impact of SFAS No. 123R. Pre-tax share-based compensation expense recognized under SFAS No. 123R for the three and nine months ended September 30, 2006 was \$1.0 million and \$2.8 million, respectively (refer to Note 9 for additional information). For the three and nine months ended September 30, 2005, we recorded pre-tax share-based compensation expense of \$0.3 million related to stock options which were granted to employees and directors prior to our IPO which were determined to be below the fair market value of the underlying stock at the date of grant and also restricted stock awards. For the three and nine months ended September 30, 2006 share-based compensation expense included in cost of revenues is \$0.1 million and \$0.3 million, respectively, and in selling, general and administrative expenses is \$0.9 million and \$2.5 million, respectively.

During the three and nine month periods ended September 30, 2006, share-based compensation expense impacted our results of operations as follows:

	Three Months Ended September 30, 2006 (In thousands, except per share data)	Nine Months Ended September 30, 2006
Income from continuing operations before income taxes	\$ 914	\$ 2,490
Income from continuing operations	540	1,494
Net income	540	1,494
Basic net income per share	\$ 0.02	\$ 0.04
Diluted net income per share	0.01	0.04

SFAS No. 123R requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. We value share-based awards using the Black-Scholes option pricing model and recognize compensation expense on a straight-line basis over the requisite service periods. Share-based compensation expense

recognized during the current period is based on the value of the portion of share-based awards that is ultimately expected to vest. SFAS No. 123R requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest. The forfeiture rate is based on historical activity. Share-based compensation expense recognized in our condensed consolidated statements of operations for the three and nine months ended September 30, 2006 includes (i) compensation expense for share-based awards granted prior to but not vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS No. 123 and (ii) compensation expense for the share-based awards granted subsequent to December 31, 2005 based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. Share-based compensation expense recognized for 2006 is based on awards ultimately expected to vest, net of estimated forfeitures. Previously in our pro forma information required under SFAS No. 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred.

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(Unaudited)

Prior to the adoption of SFAS No. 123R, we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in our consolidated statement of cash flows. SFAS No. 123R requires the cash flows resulting from the tax deductions in excess of the compensation cost recognized for those options (excess tax benefit) to be classified as financing cash flows.

The following table illustrates the effect on net income and earnings per share for the period prior to adoption of SFAS No. 123R, as if we had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(In thousands)	
Net income as reported	\$ 6,566	\$ 7,898
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(328)	(478)
Add: Total stock-based employee compensation expense, net of related tax effects included in the determination of net income as reported	155	175
Pro forma net income	\$ 6,393	\$ 7,595
<i>Basic and diluted income per share:</i>		
Basic net income per share as reported	\$ 0.17	\$ 0.20
Basic net income per share pro forma	0.16	0.19
Diluted net income per share as reported	0.16	0.20
Diluted net income per share pro forma	0.16	0.19

3. Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 requires that the impact of a tax position be recognized if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon the ultimate settlement. The provisions of FIN No. 48 are effective for fiscal years beginning after December 15, 2006, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We currently do not believe FIN No. 48 will have a significant impact on our financial results.

The SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, in September 2006. SAB No. 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current year misstatement. Prior practice allowed the evaluation of materiality on the basis of (1) the error quantified as the amount by which the current year income statement was misstated (*rollover method*) or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated (*iron curtain method*). The guidance provided in SAB No. 108 requires both methods to be used in evaluating materiality. SAB No. 108 allows a one-time transitional cumulative effect adjustment to beginning retained earnings with appropriate disclosure of the nature and amount of each individual error corrected in the cumulative adjustment, as well as a disclosure of the cause of the error and that the error had been deemed to be immaterial in the past. SAB No. 108 is effective for the first fiscal year ending after November 15, 2006. We are currently

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(Unaudited)

evaluating the impact SAB No. 108 might have on our financial position or results of operations for the year ending December 31, 2006.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We have not determined the effect, if any, the adoption of this statement will have on our results of operations or financial position.

4. Discontinued Operations and Assets Held For Sale

In the third quarter of 2004 and the second quarter of 2005, we committed to plans to sell substantially all of the assets of Utility Locate & Mapping Services, Inc. (ULMS) and Electric Services, Inc. (ESI), respectively. Both ULMS and ESI were part of our ICS segment. On August 1, 2005, we sold certain assets of ULMS and the stock of ESI.

Additionally, in the third quarter of 2006, we sold certain assets of Mechanical Specialties, Inc. (MSI) for a cash purchase price of approximately \$0.3 million, resulting in a loss, net of taxes, of \$0.03 million, included in gain (loss) on disposition of discontinued operations in our condensed consolidated statement of operations. The remaining inventory of MSI is eligible for sale to the buyer at cost for a period of one year from the date of sale. Any remaining inventory will be liquidated upon termination of the one-year agreement and we also have a pending agreement to sell a building that was used by the MSI business. MSI was part of our ICS segment.

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the financial position, results of operations and cash flows of ULMS, ESI and MSI were reflected as discontinued operations in our accompanying condensed consolidated financial statements.

Balance sheet information for discontinued operations:

	December 31, 2005	September 30, 2006
	(In thousands)	
Contract receivables, net	\$ 1,152	\$
Other current assets	1,881	1,948
Deferred income taxes		85
Total current assets	3,033	2,033
Property and equipment, net	319	1,749
Total assets	3,352	3,782
Accounts payable and other liabilities	1,501	

Total current liabilities	1,501		
Deferred income taxes long term	50		
Net assets	\$	1,801	\$ 3,782

Assets held for sale as of September 30, 2006 includes \$1.2 million for properties held-for-sale due to various business relocations. These properties are part of the ICS segment and are expected to be sold during 2006.

Table of Contents**INFRASOURCE SERVICES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)**
(Unaudited)

Statement of operations information for discontinued operations:

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2006
	(In thousands)			
Contract revenues	\$ 4,741	\$ 199	\$ 22,305	\$ 6,930
Pre-tax income (loss)	(820)	(261)	(1,356)	37

The discontinued operations activity for the nine months ended September 30, 2006 relates to MSI and the resolution of an existing ULMS reserve for accounts receivable, as well as, an earn out arrangement that will continue through December 2006.

5. Costs and Estimated Earnings in Excess of Billings and Contract Losses

Included in costs and estimated earnings in excess of billings are costs related to claims and unapproved change orders of approximately \$12.4 million and \$4.6 million at December 31, 2005 and September 30, 2006, respectively. During the nine months ended September 30, 2006, we recovered claim amounts of \$6.4 million existing at December 31, 2005. Estimated revenue related to claims and in amounts up to but not exceeding costs incurred is recognized when realization is probable and amounts are estimable. Profit from claims is recorded in the period such amounts are agreed to with the customer.

Included in our results of operations for the nine months ended September 30, 2006 is a \$7.5 million contract loss related to an electric transmission project, which assumes collection of a portion of current and projected claims, and the associated reversal of pre-tax profit of \$1.6 million recognized in prior periods. This project began in August 2005 and is expected to be substantially completed by December 2006. Consistent with our revenue recognition policy for contracts that are in a forecasted loss position, we recognized the expected loss on this project of \$5.0 million in the second quarter of 2006. Subsequently in the third quarter we identified and recorded an additional charge on this project of \$2.5 million. The \$7.5 million forecasted loss is attributable primarily to lower than expected productivity due to ineffective supervision, insufficient access to experienced labor, customer and supplier issues and extremely hot weather.

6. Goodwill and Intangible Assets

Our goodwill and intangible assets are comprised of:

**December 31,
2005 September 30, 2006**
(In thousands)

Goodwill	\$	138,054	\$	138,857
Intangible assets:				
Construction backlog	\$	17,184	\$	17,184
Volume agreements		4,561		4,561
Total intangible assets		21,745		21,745
Accumulated amortization:				
Construction backlog		(16,690)		(17,060)
Volume agreements		(3,171)		(3,549)
Total accumulated amortization		(19,861)		(20,609)
Intangible assets, net	\$	1,884	\$	1,136

Table of Contents**INFRASOURCE SERVICES, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Continued)**
(Unaudited)

The goodwill balance as of September 30, 2006 was \$128.5 million and \$10.4 million for the ICS and TS segments, respectively. The goodwill balance as of December 31, 2005 was \$128.0 million and \$10.0 million for the ICS and TS segments, respectively. The increase in goodwill during the nine months ended September 30, 2006 relates to the resolution of preacquisition tax items and the settlement of the working capital adjustment for our 2005 acquisition of EHV Power Corporation (EHV). Additionally the goodwill balance related to EHV will continue to fluctuate based on the foreign currency rate at each balance sheet date.

As a result of the adoption of SFAS No. 142, Goodwill and Intangible Assets, goodwill is subject to an assessment for impairment using a two-step fair value-based test with the first step performed at least annually, or more frequently if events or circumstances exist that indicate that goodwill may be impaired. We complete our annual analysis of our reporting units at each fiscal year end. The first step compares the fair value of a reporting unit to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step is then performed. The second step compares the carrying amount of the reporting unit's goodwill to the fair value of the goodwill. If the fair value of the goodwill is less than the carrying amount, an impairment loss would be recorded as a reduction to goodwill and a corresponding charge to operating expense. No provisions for goodwill impairments were recorded during the nine months ended September 30, 2005 and 2006.

Expense for the amortization of intangible assets was \$1.0 million and \$0.3 million for the three months ended September 30, 2005 and 2006, respectively, and \$4.3 million and \$0.7 million for the nine months ended September 30, 2005 and 2006, respectively.

The estimated aggregate amortization expense of intangible assets for the next five succeeding fiscal years is:

For the year ended December 31,	(In thousands)
2006 (excludes the nine months ended September 30, 2006)	\$ 267
2007	483
2008	227
2009	159
2010	
Total	\$ 1,136

7. Debt

On June 30, 2006, we entered into a new credit agreement which provides for a secured revolving credit facility of \$225.0 million which may be used for revolving credit borrowings, swing loans, not to exceed \$10.0 million, and standby letters of credit, not to exceed \$100.0 million. We have the right to seek additional commitments to inc