INFRASOURCE SERVICES INC
Form 10-Q
August 03, 2006

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 June 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	**03-0523754**
(State or other jurisdiction of incorporation or organization)	*(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 July 28, 2006 there were 39,996,485 shares of InfraSource Services, Inc. Common Stock, par value of $.001, outstanding.

For the Quarter Ended June 30, 2006
FORM 10-Q
INFRASOURCE SERVICES, INC. AND SUBSIDIARIES
Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

INFRASOURCE SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	December 31, 2005	June 30, 2006 (Unaudited) (In thousands, except share data)
Current assets:		
Cash and cash equivalents	$ 24,287	$ 20,491
Contract receivables (less allowances for doubtful accounts of $3,184 and $2,420, respectively)	137,762	138,307
Costs and estimated earnings in excess of billings	84,360	92,791
Inventories	9,183	8,828
Deferred income taxes	4,732	5,671
Other current assets	7,074	6,568
Receivables due from related party		316
Total current assets	267,398	272,972
Property and equipment (less accumulated depreciation of $55,919 and $68,097, respectively)	144,200	148,667
Goodwill	138,054	138,787
Intangible assets (less accumulated amortization of $19,861 and $20,355, respectively)	1,884	1,390
Deferred charges and other assets, net	10,501	6,728
Total assets	$ 562,037	$ 568,544
Current liabilities:		
Current portion of long-term debt	$ 889	$ 51
Other liabilities related parties	11,299	1,227
Accounts payable	44,939	47,482
Accrued compensation and benefits	20,454	22,798
Other current and accrued liabilities	20,515	20,338
Accrued insurance reserves	30,550	35,329
Billings in excess of costs and estimated earnings	15,012	18,456
Deferred revenues	6,590	6,569
Total current liabilities	150,248	152,250
Long-term debt, net of current portion	83,019	75,023
Deferred revenues	17,826	17,414
Other long-term liabilities related party	420	
Deferred income taxes	3,370	4,351
Other long-term liabilities	5,298	5,363
Total liabilities	260,181	254,401
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 39,786,052 shares, respectively, and outstanding 39,366,824 and 39,756,182, respectively)	39	40
Treasury stock at cost (29,870 shares)	(137)	(137)
Additional paid-in capital	278,387	281,608
Deferred compensation	(1,641)	
Retained earnings	24,640	32,433
Accumulated other comprehensive income	568	199
Total shareholders equity	301,856	314,143
Total liabilities and shareholders equity	$ 562,037	$ 568,544

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

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2006	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
	(Unaudited) (In thousands, except per share data)			
Contract revenues	$ 231,670	$ 258,027	$ 412,300	$ 475,267
Cost of revenues	212,828	221,643	373,194	409,687
Gross profit	18,842	36,384	39,106	65,580
Selling, general and administrative expenses	17,651	23,012	34,159	46,083
Merger related costs	76		152	
Provision of uncollectible accounts	4	41	84	31
Amortization of intangible assets	1,698	237	3,310	494
Income (loss) from operations	(587)	13,094	1,401	18,972
Interest income	28	173	222	409
Interest expense	(2,246)	(1,682)	(3,703)	(3,793)
Write-off of deferred financing costs		(4,296)		(4,296)
Other income (expense), net	634	1,487	5,015	1,563
Income (loss) from continuing operations before income taxes	(2,171)	8,776	2,935	12,855
Income tax expense (benefit)	(808)	3,551	1,234	5,196
Income (loss) from continuing operations	(1,363)	5,225	1,701	7,659
Discontinued operations:				
Income (loss) from discontinued operations (net of income tax expense (benefit) of $(52), $67, $(267) and $88, respectively)	(47)	102	(369)	134
Net income (loss)	$ (1,410)	$ 5,327	$ 1,332	$ 7,793
Basic income (loss) per share:				
Income (loss) from continuing operations	$ (0.04)	$ 0.13	$ 0.04	$ 0.19
Income (loss) from discontinued operations			(0.01)	0.01
Net income (loss)	$ (0.04)	$ 0.13	$ 0.03	$ 0.20
Weighted average basic common shares outstanding	39,056	39,735	39,018	39,626
Diluted income (loss) per share:				
Income (loss) from continuing operations	$ (0.04)	$ 0.13	$ 0.04	$ 0.19
Income (loss) from discontinued operations			(0.01)	
Net income (loss)	$ (0.04)	$ 0.13	$ 0.03	$ 0.19
Weighted average diluted common shares outstanding	39,056	40,336	39,801	40,242

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

INFRASOURCE SERVICES, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders Equity

	Common Stock		Treasury Stock		Additional Paid-In	Deferred	Accumulated Other Comprehensive Income (Loss)		Retained	
	Shares	Amount	Shares	Amount	Capital	Compensation	Fair Value Adjustment on Derivatives	Foreign Currency Translation Adjustment	Earnings	Total
	(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
Vesting of early exercised options	119,476				549					549
Reclass of deferred compensation					(1,641)	1,641				
Stock options exercised and vested restricted stock	195,381	1			1,211					1,212
Income tax benefit from options exercised					579					579
Issuance of shares under employee stock purchase plan	74,501				698					698
Stock compensation expense					1,825					1,825
Net income									7,793	7,793
Other comprehensive loss							(480)	111		(369)
Balance as of June 30, 2006	39,786,052	$ 40	(29,870)	$ (137)	$ 281,608	$	$	$ 199	$ 32,433	$ 314,143

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

5

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

	Six Months Ended June 30, 2005 (Unaudited) (In thousands)	Six Months Ended June 30, 2006
Cash flows from operating activities:		
Net income	$ 1,332	$ 7,793
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Loss (gain) from discontinued operations net of taxes	369	(134)
Depreciation	13,597	13,664
Amortization of intangibles	3,310	494
Gain on sale of assets	(1,398)	(1,355)
Deferred income taxes	(1,988)	(738)
Write-off of deferred financing costs		4,296
Reversal of litigation judgment	(4,279)	
Other	(134)	2,071
Changes in operating assets and liabilities, net of effects of acquisitions:		
Contract receivables, net	(14,146)	(576)
Costs and estimated earnings in excess of billings, net	(38,749)	(4,986)
Inventories and other current assets	(1,134)	671
Deferred charges and other assets	(1,844)	242
Current liabilities	17,580	9,413
Other liabilities related parties		(12)
Other liabilities	(142)	150
Net cash flows provided by (used in) operating activities from continuing operations	(27,626)	30,993
Net cash flows used in operating activities from discontinued operations	(282)	
Net cash flows provided by (used in) operating activities	(27,908)	30,993
Cash flows from investing activities:		
Acquisitions of businesses, net of cash acquired	(38)	(10,565)
Proceeds from restricted cash	5,000	
Proceeds from sales of equipment	2,871	2,331
Additions to property and equipment	(15,985)	(18,921)
Net cash flows used in investing activities from continuing operations	(8,152)	(27,155)
Net cash flows used in investing activities from discontinued operations	(210)	
Net cash flows used in investing activities	(8,362)	(27,155)
Cash flows from financing activities:		
Increase in revolving credit facility borrowings	18,000	
Borrowings of long-term debt		75,000
Repayments of long-term debt and capital lease obligations	(458)	(83,833)
Debt issuance costs		(1,133)
Excess tax benefits from stock-based compensation		416
Proceeds from exercise of stock options and employee stock purchase plan	1,010	1,908
Net cash flows provided by (used in) financing activities	18,552	(7,642)
Cash and cash equivalents:		
Net decrease in cash and cash equivalents	(17,718)	(3,804)
Cash and cash equivalents transferred to discontinued operations	492	
Cash and cash equivalents beginning of period	21,222	24,287
Effect of exchange rates on cash		8
Cash and cash equivalents end of period	$ 3,996	$ 20,491
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Accounts payable balance related to purchases of property and equipment	$ 1,071	$ 1,444

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

6

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. 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. Our principal stockholders are OCM/GFI Power Opportunities Fund, L.P. and OCM Principal Opportunities Fund, L.P. (collectively, the Principal Stockholders), both Delaware limited partnerships.

On March 24, 2006, the Principal Stockholders and other stockholders completed a secondary underwritten public offering of 13,000,000 shares of our common stock at $17.50 per share. On April 12, 2006, an additional 1,950,000 shares of our common stock were sold following the exercise, in full, of the underwriters over-allotment option to purchase additional shares for 30 days after the prospectus date. We did not issue any primary shares; therefore, we did not receive any of the proceeds of this offering. As of the date of this filing, the Principal Stockholders own approximately 27.2% of our common stock.

On June 29, 2006, we filed a registration statement on Form S-3 for an offering by the Principal Stockholders and certain members of our management team of 10,394,520 shares of our common stock (11,953,699 shares if the underwriters exercise in full their over-allotment option). The selling stockholders have agreed to pay our expenses with respect to such offering (refer to Note 14 for additional information). The Principal Stockholders will own approximately 3.5% of our common stock after giving effect to such offering (no shares if the underwriters over-allotment option is exercised in full).

The accompanying unaudited condensed consolidated financial statements reflect our financial position as of December 31, 2005 and June 30, 2006; our results of operations for the three and six months ended June 30, 2005 and 2006; and our cash flows for the six months ended June 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 payment 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 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 25 as allowed under SFAS No. 123. Under the intrinsic value method, no share-based compensation expense had been 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 six months ended June 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. Share-based compensation expense recognized under SFAS No. 123R for the three and six months ended June 30, 2006 was $1.0 million and $1.8 million, respectively (refer to Note 9 for additional information). For the three and six months ended June 30, 2005, we recorded share-based compensation expense of $4,000 and $20,000, respectively, related to stock options which were granted to employees and directors below the fair market value of the underlying stock at the date of grant. Share-based compensation expense is included in selling, general and administrative expenses in our condensed consolidated statements of operations.

Our income from continuing operations before income taxes, income from continuing operations and net income for the three months ended June 30, 2006 was $1.0 million, $0.6 million and $0.6 million lower, respectively, than if we had continued to account for share-based compensation under APB No. 25. Basic and diluted earnings per share for the three months ended June 30, 2006 would have been $0.15 and $0.14, respectively, if we had not adopted SFAS No. 123R, compared to reported basic and diluted earnings per share of $0.13 and $0.13, respectively.

Our income from continuing operations before income taxes, income from continuing operations and net income for the six months ended June 30, 2006 was $1.8 million, $1.1 million and $1.1 million lower, respectively, than if we had continued to account for share-based compensation under APB No. 25. Basic and diluted earnings per share for the six months ended June 30, 2006 would have been $0.22 and $0.22, respectively, if we had not adopted SFAS No. 123R, compared to reported basic and diluted earnings per share of $0.20 and $0.19, respectively.

SFAS No. 123R requires companies to estimate the fair value of share-based payment awards on the grant-date 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 payment 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 six months ended June 30, 2006 includes (i) compensation expense for share-based payment awards granted prior to, but not yet 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 payment awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R. As share-based compensation expense recognized in our condensed consolidated statements of operations for fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for 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.

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 June 30, 2005 (in thousands)	Six Months Ended June 30, 2005
Net income (loss) as reported	$ (1,410)	$ 1,332
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of relative tax effects	(192)	(349)
Add: Total stock-based employee compensation expense, net of related tax effects included in the determination of net income as reported	4	20
Pro forma net income (loss)	$ (1,598)	$ 1,003
Basic and diluted income (loss) per share:		
Basic net income (loss) per share as reported	$ (0.04)	$ 0.03
Basic net income (loss) per share pro forma	(0.04)	0.03
Diluted net income (loss) per share as reported	(0.04)	0.03
Diluted net income (loss) per share pro forma	(0.04)	0.03

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 flow 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.

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.

4. Discontinued Operations

In the third quarter of 2004, we committed to a plan to sell substantially all of the assets of Utility Locate & Mapping Services, Inc. (ULMS). Additionally, in the second quarter of 2005, we committed to a plan to sell substantially all of the assets of Electric Services, Inc. (ESI). Both ULMS and ESI were 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 and ESI were reflected as discontinued operations in our accompanying condensed consolidated financial statements. On August 1, 2005 we sold certain assets of ULMS and the stock of ESI.

Statement of operations information for discontinued operations:

	Three Months Ended June 30, 2005 (in thousands)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2005	Six Months Ended June 30, 2006
Contract revenues	$ 6,455	$	$ 11,333	$
Pre-tax income (loss)	(99)	169	(636)	222

The discontinued operations activity for the six months ended June 30, 2006 relates to 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 $5.7 million and $12.4 million at June 30, 2006 and December 31, 2005, respectively. During the six months ended June 30, 2006 we recovered claim amounts of $5.8 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 three and six months ended June 30, 2006 is a $5.0 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 entire expected loss on this project in the second quarter of 2006. The loss is attributable primarily to lower than expected productivity due to ineffective supervision, insufficient access to experienced labor, supplier issues and extremely hot weather.

6. Goodwill and Intangible Assets

Our goodwill and intangible assets are comprised of:

	December 31, 2005 (in thousands)	June 30, 2006
Goodwill	$ 138,054	$ 138,787
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)	(16,937)
Volume agreements	(3,171)	(3,418)
Total accumulated amortization	(19,861)	(20,355)
Intangible assets, net	$ 1,884	$ 1,390

The goodwill balance as of June 30, 2006 was $128.4 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 six months ended June 30, 2006 relates to the resolution of preacquistion tax items and the settlement of the working capital adjustment for our 2005 acquisition of EHV Power Corporation (EHV).

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 six months ended June 30, 2005 and 2006.

Expense for the amortization of intangible assets was $1.7 million and $0.2 million for the three months ended June 30, 2005 and 2006, respectively, and $3.3 million and $0.5 million for the six months ended June 30, 2005 and 2006, respectively. When fully amortized, intangible assets are removed from our balance sheet.

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 six months ended June 30, 2006)	$ 572
2007	432
2008	227
2009	159
2010	
Total	$ 1,390

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 the issuance of standby letters of credit, not to exceed $100.0 million. We also have the right to seek additional commitments to increase the aggregate commitments up to $350.0 million, subject to compliance with applicable covenants. The new credit agreement replaces our previous secured credit facility, which included an $85.0 million revolving credit commitment and $84.0 million in term loan commitments.

The proceeds from borrowings under the new credit agreement were used to repay $83.6 million of outstanding debt existing as of June 30, 2006 under our previous amended and restated credit facility which was terminated upon repayment. As of June 30, 2006, we have a $75.0 million outstanding revolving credit borrowing and $34.0 million in letters of credit outstanding. As a result of the entry into the new credit agreement and refinancing of the previous credit facilities, we recorded a charge in the second quarter of 2006 of $4.3 million related to the write-off of deferred financing costs.

Under the new credit agreement, committed loans bear interest at either the British Bankers Association LIBOR Rate, or a rate (equal to the higher of the Federal Funds Rate plus 1/2 of 1% or the Bank of America prime rate) plus, an applicable margin of 1-2% for LIBOR Rate borrowings and 0-1%

for prime based borrowings, based on our consolidated leverage ratio. We are subject to a commitment fee of between .175-.35%, and letter of credit fees between 1-2% based on our consolidated leverage ratio. We can prepay all or a portion of any committed loans from time to time during the term of the new credit agreement and reborrow up to the aggregate commitments. The maturity date of the new credit agreement is June 30, 2012. The weighted average interest rate of our borrowing at June 30, 2006 is 8.5%.

The new credit agreement contains certain restrictive covenants, including financial covenants to maintain our consolidated interest coverage ratio at not less than 2.00:1.00 in each period of four trailing fiscal quarters; consolidated leverage ratio not greater than 3.25:1.00 in any four quarters prior to the incurrence of subordinated debt in an amount equal to or greater than $25.0 million, and 4.00:1.00 for any four quarters from and after such incurrence; and consolidated senior leverage ratio greater than 2.50:1.00 in any four quarters from and after incurring subordinated debt or senior unsecured debt equal to or greater than $25.0 million. There are also additional restrictions, including other indebtedness, liens, fundamental changes, disposition of property, restricted payments and investments. The new credit agreement is secured by a pledge of substantially all of our assets.

8. Computation of Per Share Earnings (Losses)

The following table is a reconciliation of the numerators and denominators of the basic and diluted income (loss) per share computation.

	Three Months Ended June 30, 2005 (in thousands)	**Three Months Ended June 30, 2006**	**Six Months Ended June 30, 2005**	**Six Months Ended June 30, 2006**
Income (loss) from continuing operations	$ (1,363)	$ 5,225	$ 1,701	$ 7,659
Income (loss) from discontinued operations, net of tax benefit of $(52), $67, $(267) and $88, respectively	(47)	102	(369)	134
Net income (loss) (numerator)	$ (1,410)	$ 5,327	$ 1,332	$ 7,793
Weighted average basic common shares outstanding (denominator)	39,056	39,735	39,018	39,626
Potential common stock arising from stock options and employee stock purchase plan		601	783	616
Weighted average diluted common shares outstanding (denominator)	39,056	40,336	39,801	40,242
Basic net income (loss) per share	$ (0.04)	$ 0.13	$ 0.03	$ 0.20
Diluted net income (loss) per share	(0.04)	0.13	0.03	0.19

Included in potential common stock arising from stock options for the six months ended June 30, 2005 and three and six months ended June 30, 2006 are early exercises of unvested stock option awards, which are excluded from the weighted average basic common shares outstanding. For the three months ended June 30, 2005 there were 1,983,335 shares, for the six months ended June 30, 2005 there were 626,560 shares and for both the three and six months ended June 30, 2006 there were 136,126 shares, under option grants excluded from the calculation of diluted earnings per share as the effect of these shares would have been anti-dilutive.

9. Stock Compensation Plans

Our stock based compensation expense includes the following:

	Three Months Ended June 30, 2006 (in thousands)	Six Months Ended June 30, 2006
Stock option expense	$ 639	$ 1,301
Restricted stock expense	115	218
Employee stock purchase plan expense	201	306
Total stock based compensation expense	$ 955	$ 1,825

Stock Options

Our 2003 Omnibus Stock Incentive Plan as amended effective April 29, 2004 (the 2003 Stock Plan), was originally adopted on September 23, 2003 to allow the grant of stock options and restricted stock to designated key employees. The options currently issued under the 2003 Stock Plan include time-based options that vest over four years. All options have a maximum term of ten years. The 2003 Stock Plan was terminated upon completion of the IPO. Options previously issued under the 2003 Stock Plan remain outstanding.

Our 2004 Omnibus Stock Incentive Plan (the 2004 Stock Plan) was adopted on April 29, 2004 to allow the grant of stock options, stock appreciation rights, restricted stock, and deferred stock or performance shares to employees and directors. The options currently issued under the 2004 Stock Plan vest over a period of four years. All options have a maximum term of ten years. The aggregate number of shares reserved for issuance under the 2004 Stock Plan is 800,000 plus an amount to be added annually on the first day of our fiscal year (beginning 2005) equal to the lesser of (i) 1,000,000 shares or (ii) two percent of our outstanding shares of common stock on the last day of the immediately preceding fiscal year. As of June 30, 2006, 2.4 million shares have been reserved for issuance under the 2004 Stock Plan.

For the purpose of calculating the fair value of our stock options, we estimate expected stock price volatility based on our common stock s historical volatility. The risk-free interest rate assumption included in the calculation is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on our intent not to issue a dividend. We are currently using the simplified method to calculate expected holding periods as provided for under SAB No. 107.

As stock-based compensation expense recognized in the condensed consolidated statements of operations for the three and six months ended June 30, 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. In accordance with SFAS No. 123, pro forma information for the periods prior to fiscal 2006 was based on recognizing the effect of forfeitures as they occurred.

The weighted-average grant-date fair value of options granted during the three and six months ended June 30, 2005 and the three and six months ended June 30, 2006 was $0.8 million, $0.8 million, $1.0 million and $1.2 million, respectively. The total intrinsic value of options exercised during the three and six months ended June 30, 2005 and the three and six months ended June 30, 2006, was $0.1 million, $0.5 million, $0.3 million and $1.4 million, respectively.

The fair value of each option grant was estimated on the grant-date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three months ended June 30, 2005	Six months ended June 30, 2005	Three months ended June 30, 2006	Six months ended June 30, 2006
Weighted Average Assumptions:				
Expected volatility	58 %	58 %	43 %	44 %
Dividend yield	0 %	0 %	0 %	0 %
Risk-free interest rate				