INFRASOURCE SERVICES INC
Form 10-K
March 24, 2005

United States
Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

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.

DELAWARE	**03-0523754**
(STATE OF INCORPORATION)	(I.R.S. ID)

100 West Sixth Street, Suite 300, Media, PA 19063
(Address of principal executive office)
(610) 480-8000
(Registrant s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.001 per share,
listed on the New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:
None

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2004 was $158,858,460.

The number of shares outstanding of the registrant s common stock as of March 11, 2005 was 39,330,257.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Form 10-K will be incorporated by reference to the Proxy Statement for the 2005 Annual Meeting of our shareholders to be filed prior to April 29, 2005.

INFRASOURCE SERVICES, INC.
AND SUBSIDIARIES

Annual Report on Form 10-K for the year ended December 31, 2004

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Forward-Looking and Cautionary Statements

In this Annual Report on Form 10-K, we have made forward-looking statements. Generally, these forward-looking statements can be identified by words like may, will, should, expect, intend, anticipate, believe, estimate, predict, potential, or continue or the negative other comparable words. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and are based upon our current estimates and projections of future results or trends. Although we believe that our plans and objectives reflected in or suggested by these forward-looking statements are reasonable, we may not achieve these plans or objectives. These statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. These statements only reflect our predictions. Except as required by law, we will not update forward-looking statements even though our situation may change in the future. With respect to forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The factors that could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements include, but are not limited to, those described under Item 1, Risk Factors and other risks outlined in our periodic filings with the Securities and Exchange Commission (SEC).

Available Information

The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room located at 450 Fifth Street, N.W., Washington, D.C., 20549. In order to obtain information about the operation of the Public Reference Room, a person may call the SEC at 1-800-732-0330. The SEC also maintains a site on the Internet that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC s website is *http://www.sec.gov.* You may also read and download the various reports we file with the SEC from our website, *http://www.infrasourceinc.com.* The information on our website is not part of this Form-10K filing.

Our corporate governance guidelines and the charters of the standing committees of our Board of Directors, together with our Code of Business Conduct and Ethics and additional information regarding our corporate governance, are available on our website at *www.infrasourceinc.com* and will be made available, without charge, in print to any shareholder who requests such documents from Terence R. Montgomery, Senior Vice President & Chief Financial Officer, InfraSource Services, Inc. 100 West Sixth Street, Suite 300, Media, Pennsylvania 19063.

PART I

Item 1. BUSINESS

General

We are one of the largest specialty contractors serving the utility transmission and distribution infrastructure in the United States based on market share. We operate in two business segments**.** Our principal segment, Infrastructure Construction Services (ICS), 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 ICS services are provided by five of our operating units, all of which have been aggregated into one reportable segment due to their similar economic characteristics, customer bases, products and production and distribution methods. Our Telecommunication Services (TS) segment, consisting of a single operating unit, provides design, procurement, construction, and maintenance services for telecommunications infrastructure. Our TS customers include communication service providers, large industrial customers such as pharmaceutical companies, school districts and other entities with high bandwidth telecommunication needs. A business included in our TS segment is a regulated public telecommunication utility, with facilities throughout Delaware, Maryland, New Jersey and Pennsylvania. We operate in multiple service territories throughout the United States and do not have significant operations or assets in countries outside the United States.

We provide services to our customers through contracts by our operating subsidiaries. Our contracts, which generally are awarded through competitive bidding, include fixed-price contracts and master service agreements or MSAs. Our TS segment enters into indefeasible right of use (IRU) lease contracts for use of telecommunications fiber in addition to MSA and fixed price contracts.

We are a Delaware corporation formed in May 2003 by our principal stockholders to acquire InfraSource Incorporated and certain of its subsidiaries from Exelon Enterprises Company, LLC (Exelon Enterprises). InfraSource Incorporated was originally organized in 1999 and between 1999 and January 2001, InfraSource Incorporated acquired its operating subsidiaries. Our principal stockholders are OCM/GFI Power Opportunities Fund, L.P. and OCM Principal Opportunities Fund II, L.P., funds managed by Oaktree Capital Management, LLC and GFI Energy Ventures LLC and are referred to in this report on Form 10-K as our principal stockholders . Our acquisition of InfraSource Incorporated on September 24, 2003 is referred to as the Merger. On May 12, 2004, we completed our initial public offering (IPO) of 8,500,000 shares of common stock. Our principal stockholders currently hold approximately 65% of our outstanding common stock.

During 2004, we acquired Maslonka & Associates (Maslonka), a high-voltage aerial electric transmission line constructor, Utili-Trax Contracting Partnerships, LLC (Utili-Trax), which provides underground and overhead construction services for electric cooperatives and municipal utilities throughout the upper Midwest, and EnStructure Corporation s (EnStructure) operating companies: Sub-Surface Construction Company, Flint Construction Company and Iowa Pipeline Associates, which provide construction services within the utilities and oil and gas markets throughout the Midwestern, Southern and Southeastern regions. Maslonka, Utili-Trax and the EnStructure companies are all part of the ICS segment. During 2004, we completed the sale of our telecommunications craft services business, RJE Telecom, Inc. (RJE), which was part of the TS segment.

Our principal executive offices are located at 100 West Sixth Street, Suite 300, Media, PA 19063 and our telephone number is 610-480-8000.

End Markets Overview

We provide infrastructure services primarily to the following end markets:

Electric Infrastructure. We primarily focus on the construction and maintenance of electric transmission and, to a lesser extent, electric distribution systems. Electric transmission refers to power lines and associated substations through which electricity is transmitted over long distances at high voltages. Electric distribution refers to lower voltage power lines that provide electricity to end users over shorter distances.

Natural Gas Infrastructure. The services we provide to natural gas customers primarily involve construction and maintenance of natural gas distribution and, to a lesser extent, transmission infrastructure. Natural gas distribution refers to low pressure lines that carry natural gas from higher pressure pipelines to end users. Baseline spending is sustained by on-going replacement of aging infrastructure, often mandated by state utilities commissions, and new residential construction.

Telecommunications Infrastructure. Our TS and ICS segments provide telecommunications infrastructure construction and maintenance services primarily to Regional Bell Operating Companies and other telecommunications customers. Our TS segment provides IRU access to dark fiber infrastructure, encompassing design, construction and leasing to third parties last-mile and point-to-point fiber connections.

Our revenue mix by end market for the years ended December 31, 2003 and 2004 was:

End Market	2003	2004
Electric Power	56 %	56 %
Natural Gas	30 %	33 %
Telecommunications	12 %	8 %
Other	2 %	3 %

Approximately 81% and 58% of our telecommunications end market revenues were from the TS segment for the years ended December 31, 2003 and 2004, respectively.

For additional financial information about our segments, refer to note 16 to our consolidated financial statements included in Item 8 of this Form 10-K.

Significant 2004 Projects

Path 15. Path 15 is an 84-mile stretch of electric high-voltage transmission lines in the central valley of California connecting Southern California and Northern California. In May 2003, Maslonka was awarded the transmission line portion of the Path 15 project. The project was substantially completed in late November 2004, and the transmission line has been placed in service.

Arrowhead to Weston (formerly known as PowerUp Wisconsin.) On December 15, 2003, the Public Service Commission of Wisconsin issued an authorization to proceed for the construction of a 210-mile high-voltage transmission line linking Duluth, Minnesota and Wauasau, Wisconsin. During 2004, we received authorizations to proceed on various portions of this project, and we completed the first 10-mile segment. We expect additional project authorizations through 2005, and we expect the project to continue through 2007.

Bonneville Power Administration. In January 2004, Bonneville Power Administration (BPA), a division of the U.S. Department of Energy (DOE), awarded Maslonka a contract to construct the Schultz-Wautoma Transmission Line, a new 63.7 mile 500kV transmission line that is part of the Schultz-Hanford Area project in Washington State. The project is intended to improve reliability of the transmission grid and ensure that the BPA can continue to meet its statutory and contractual obligations to

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deliver power in the Pacific Northwest. During 2004, we completed approximately 50% of the project. The line is scheduled to be completed by the end of 2005.

Agreements with Exelon Corporation (Exelon). In September 2003, in connection with the Merger, we entered into a volume agreement with Exelon, pursuant to which we are assured a continuing level of business from Exelon through 2006 at approximately the same levels as in 2003, subject to earlier termination under limited circumstances. Following the Merger, we also maintained several service contracts with Exelon and entered into a number of outsourced operating agreements under which we perform various services including utility construction and maintenance and telecommunications and infrastructure services on an outsourced basis to Exelon s business and residential customers.

Backlog

Backlog represents the amount of revenue that we expect to realize from work to be performed on uncompleted contracts, including new contracts which we have been awarded and have received a notice to begin work. In some cases, we are awarded a contract in advance of receiving the notice to begin work and, in such event, we do not classify the work as backlog. Therefore, we do not include in backlog contracts that have been awarded but have not yet begun, including, for example, those with contingent financing arrangements or release of particular permits. We include in backlog amounts under our volume agreement with Exelon only to the extent that we have an operating agreement in place covering specific services. Our backlog also includes our estimate of work to be performed under MSAs, which often have two-to-three year terms and revenues under lease commitments. Further, our customers are not contractually committed to specific volumes of services under our MSAs or long-term maintenance contracts, and many of our contracts may be terminated with minimal notice. Our backlog may not be realized as revenue or, if realized, may not result in profits. As backlog is often difficult to determine with certainty, the backlog we obtain in connection with any companies we acquire may not be as large as we believed or may not result in the revenue we expected.

Reductions in backlog due to cancellation by a customer or for other reasons could significantly reduce the revenue and profit we actually receive from contracts included in backlog. In the event of project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenues reflected in our backlog (with the exception of contractually committed amounts in connection with our agreement with Exelon). In addition, projects may remain in our backlog for extended periods of time.

Our backlog at December 31, 2004 was approximately $935 million, of which approximately $835 million related to our ICS segment and $100 million related to our TS segment. We currently expect to complete approximately $500 million to $520 million of our backlog during 2005. Backlog is not a measure defined in generally accepted accounting principles and our methodology in determining backlog may not be comparable to the methodology used by other companies in determining their backlog.

Industry Trends

Inadequacy of Current Electric Infrastructure. We believe the electric infrastructure in the United States will require significant spending to remedy historical underinvestment and to respond to increasing electricity demand. The increase in demand for electricity and growth in electric power generation capacity have outpaced the increase in transmission infrastructure expenditures. This relative underinvestment has contributed to the current inadequacy of the electric power grid. In its 2002 *National Transmission Grid Study*, the DOE emphasized the urgent need to modernize the nation s transmission system. The National Transmission Grid Study, Edison Electric Institute, Electric Power Research Institute, and other industry studies have documented the inadequacies of the existing transmission grid. The DOE s January 2005 National Energy Policy Status Report on Implementation of National Electric Policy

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Recommendations outlines the Federal Energy Regulatory Commission s (FERC) actions and ongoing initiatives to promote competition and encourage investment in transmission facilities.

Increased Outsourcing of Infrastructure Services. Driven in part by pressures from investors, regulators, and consumer advocates, utilities are seeking ways to improve cost efficiencies. We believe that utilities are frequently able to reduce operating costs and increase efficiencies by outsourcing a range of services to third parties. Outsourcing by utilities to third-party contractors has historically been focused on capital projects (generally construction projects) and, to a lesser extent, engineering, procurement, operations and maintenance work. In addition, we believe outsourcing trends are also being driven by reduced and aging utility workforces.

As transmission owning utilities increase their budgets to improve reliability and eliminate grid congestion, we expect they will turn to outsourcing to avoid increasing the fixed cost of their internal operations. Often contractors can also provide services in a more efficient and cost-effective manner, in part by managing their labor force across various projects and multiple customers, while utilities must generally employ their labor force full-time. Service providers are also able to deploy their equipment and resources over a larger geographic footprint than utilities. Further, contractors have a direct incentive to manage projects with an emphasis on cost-effectiveness, quality and customer satisfaction. As a result, many utilities are continuing to reduce their workforces and increasing their reliance on third-party service providers to perform infrastructure services.

Favorable Regulatory, Legislative and Political Environment. To ensure that infrastructure development keeps pace with and helps promote market development, and in response to several recent high-profile failures, federal and state governments are now prioritizing efforts to upgrade, expand and maintain the nation s electric power grid. For example, FERC states in its Strategic Plan FY2004-2008 that its top priority is to promote a secure, high-quality, environmentally responsible infrastructure. This goal includes objectives to expedite appropriate energy infrastructure development to ensure sufficient energy supplies and provide for timely cost recovery by infrastructure investors.

Examples of recent and proposed actions are:

- *Transmission Rate Incentives.* In January 2003, FERC proposed a transmission incentive pricing policy that would offer a higher rate of return on investment for all transmission owners who participate in a FERC-approved regional transmission organization, or RTO, with an additional return if the transmission owner also meets certain independence requirements (*i.e.*, it is a separate, independent transmission company, or ITC). In addition, FERC would increase the rate of return on investment in new transmission facilities if the expansion or upgrade is undertaken pursuant to an RTO s transmission planning process. FERC has deferred its decision on proposed incentives for transmission owners expansion or upgrades undertaken pursuant to an RTO s transmission planning process pending FERC s finalization of a policy statement regarding such incentives throughout the industry. On a case by case basis, FERC has implemented ITC participation incentives, 15-year life accelerated depreciation, and inclusion of construction costs in rates during construction. These rate incentives are designed to encourage transmission owners to transfer control or ownership of their transmission facilities to independent, FERC-approved transmission operators. For all transmission owners who qualify, these practices also serve to encourage additional investment in transmission due to the availability of a higher rate of return.

- *More Stringent Reliability Requirements and Enforcement.* Some state utility commissions have begun to hold utilities accountable for failing to meet established minimum reliability standards or are considering such measures. In many cases, they are requiring minimum levels of capital spending to upgrade and maintain the electric power transmission and distribution network. In February 2005, FERC affirmed that compliance with new transmission reliability standards adopted by the North American Electric Reliability Council (NERC) is required under the Commission s

open-access transmission tariff consistent with Good Utility Practice. The reliability standards define the requirements for planning and operating the North American bulk electric system and require transmission system operators to publicly report violations of the electric power grid reliability standards. FERC is exploring its authority to assure infrastructure reliability and is generally taking a trust but verify approach to industry compliance.

- *Clarification of Generator Interconnection Policies.* In July 2003, FERC issued new standards for interconnection of large power generators to the transmission grid. These standards are intended to facilitate infrastructure development by clarifying interconnection procedures and by reducing interconnection time and cost. The ruling sets standard interconnection procedures to be followed by generators and transmission providers and clarifies interconnection cost allocation when the transmission provider is not independent. Also in July 2003, FERC proposed a notice of proposed rulemaking that would clarify and expedite interconnection procedures for small generators. FERC reaffirmed its basic approach to standard generator interconnection policies in a rehearing order issued on March 3, 2004. However, in that order, FERC also modified certain aspects of the interconnection rule, including changing the mechanism for providing credits to generation owners who paid the up-front cost of required network upgrades, to ensure that native load customers and existing transmission customers did not subsidize new generation.

Security of the Nation s Infrastructure. There has been growing concern related to security of the nation s energy infrastructure including generating facilities and transmission networks, due to the threat of terrorism. Efforts to improve facility security are likely to involve both physical improvements as well as expanded monitoring. Much of the physical improvements will be performed by third-party service providers and may create new business opportunities for infrastructure services companies.

Spending Driven by Environmental Regulation. We are seeing efforts to comply with increasingly stringent environmental regulations, primarily in the power generation sector. Most electric utilities are planning significant investment in physical plant improvements, retrofits, and upgrades to reduce harmful emissions at existing plants. We believe that this work will primarily be performed by third-party infrastructure services companies and may provide a new stream of work for companies with our relevant experience.

Business Strategy

Capitalize on Favorable Industry Trends in Utility Infrastructure Markets. We expect that increased spending on utility infrastructure and increased outsourcing by customers in our end markets will lead to more business from our utility customers and we intend to capitalize on these trends.

Increase Our Market Share. We intend to leverage our competitive strengths to increase our market share by:

- gaining a greater share of our existing customers spending for outsourced services we currently provide to them;
- expanding cross-selling of additional services to our existing customers;
- obtaining business from new customers in the territories we currently serve; and
- introducing services to new and existing customers in regions we do not currently serve.

Focus on Specialized Services that Generate High Margins. We intend to continue to increase our focus on technically complex projects where the specialized capability of our highly skilled personnel differentiates us from many of our competitors. For example, we have targeted turnkey substation services as a core competency, where our expertise enables us to perform the work efficiently and generate above average margins.

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Pursue Highly Strategic Acquisitions. Although we do not consider acquisitions fundamental to the achievement of our objectives, we intend to evaluate and pursue acquisition opportunities to bolster our presence in select regional markets or to broaden our product and service offerings.

Our ability to achieve our business strategy is subject to numerous risks. You should consider the risks discussed under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Report on Form 10-K.

Services

Our comprehensive range of services includes the design, engineering, procurement, construction, maintenance and repair of utility infrastructure. We also:

- provide ancillary field services such as project management, permitting, materials management, work scheduling and customer interface management;
- refurbish, remanufacture and modify select aging electric substation equipment; and
- lease last mile, point-to-point telecommunications infrastructure in select markets through our TS segment.

The following is an overview of the infrastructure we target for the services we provide:

- high-voltage electric power transmission lines;
- high-voltage electric power substations;
- lower-voltage electric power distribution lines;
- electrical wiring and instrumentation inside power generation plants (including work for environmental control systems for clean air compliance);
- natural gas distribution lines;
- natural gas transmission infrastructure (including pumping stations);
- joint-trench operations (co-locating electric power, natural gas, telecommunications, cable and/or other utilities); and
- telecommunications duct and cable.

Marketing and Customers

Most of our marketing is conducted regionally and our sales and marketing efforts are primarily the responsibility of the management of our operating subsidiaries. In addition, our centralized business development group coordinates, promotes and markets our services for prospective large national accounts and projects that require services from multiple operating subsidiaries. For example, we have had success in the past in selling our natural gas distribution services to existing long-term electric power customers. We plan to continue to cross-sell the complementary areas within our broad range of service offerings.

Our customers primarily include electric power utilities, natural gas utilities, government entities, telecommunications companies, and heavy industrial companies, such as petrochemical, processing and refining businesses. Many of our customers, particularly our utility customers, are highly regulated and may require numerous regulatory and siting approvals to undertake new infrastructure projects.

Our top ten customers accounted for approximately 48% and 46% of our aggregate revenues during 2003 and 2004, respectively, which includes work done for those customers as a subcontractor through others. Sales to Exelon accounted for 14%, 21% and 17% of our revenues for the periods January 1, 2003

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through September 23, 2003 and May 30, 2003 through December 31, 2003, and the year ended December 31, 2004, respectively.

The TS segment had one customer that provided approximately 26% and 23% of revenues for the period May 30 to December 31, 2003 and the year ended December 31, 2004, respectively.

Seasonality and Cyclicality

Our results of operations are subject to seasonal variations. During the winter months, demand for new projects and new maintenance service arrangements is lower in some geographic areas due to reduced construction activity, especially for services to natural gas distribution customers. During the winter months, our ICS business segment typically experiences lower gross and operating margins. However, demand for repair and maintenance services attributable to damage caused by inclement weather during the winter months may partially offset the loss of revenues from lower demand for new projects and new maintenance service arrangements. Our working capital needs generally follow these seasonal patterns.

Additionally, our industry can be highly cyclical as evidenced by the recent declines in spending in the telecommunications and independent power producers generation sectors. As a result, our volume of business may be adversely affected by declines in new projects in various geographic regions or industries in the United States. The financial condition of our customers and their access to capital, variations in the margins of projects performed during any particular quarter, the timing and magnitude of acquisition assimilation costs, regional economic conditions and timing of acquisitions may also materially affect quarterly results. Accordingly, our operating results in any particular quarter may not be indicative of the results that can be expected for any other quarter or for the entire year.

Our TS segment is not significantly affected by seasonality.

Competition

The end markets in which we operate are highly fragmented and competitive. In most cases, we are bidding against numerous competitors for contract and project awards. Many of our competitors are small, owner-operated companies that typically operate in a limited geographic area. Several of our competitors, particularly for large projects that require considerable resources, are large regional or national companies focused on providing services to larger utilities. Our competition, in some cases, includes our utility customers that may choose to perform their own infrastructure work. In the future, competition may be encountered from new market entrants.

Competitive factors in the end markets in which we operate include:

- price;
- history of project execution (*e.g.*, safety record, cost control, timing and experience);
- reputation and relationships with customers;
- geographic presence and breadth of service offerings;
- the availability of qualified and/or licensed personnel; and
- financial strength and the ability to obtain surety bonding.

To compete successfully, we may be required to reduce prices, increase our operating costs or take other measures that could significantly reduce our revenues, margins and cash flow. For example, the petrochemical industry has reduced capital spending due to gas price increases which in turn has caused reduced revenues and gross margins for us.

We believe the following are important aspects of our ability to compete in our end markets:

- our market leadership and reputation for high-quality service in our principal end markets;
- the breadth of our service offerings and capabilities as compared to our competitors, which allows us to design, construct and maintain infrastructure for our customers, in some cases across multiple geographic regions;
- our reputation as a service contractor for delivering projects on time, on budget and to customer specifications;
- better than industry average safety record of most of our operating subsidiaries, which we believe provides us with a competitive advantage in bidding for many projects;
- experienced and skilled workforce trained to handle technically complex projects, including high-voltage electric power work and specialized subsurface work, which we can deploy efficiently to staff projects and meet customer needs;
- our financial strength, which is an important consideration to many customers, and improves our access to surety bonding to support our projects; and
- a strong, experienced management team with extensive industry experience.

Types of Contracts

Under fixed-price contracts, we agree to perform the contract for a fixed-price on an agreed upon schedule. We often do, but sometimes may be unable to fully recover any cost overruns to the approved contract price. A unit-price contract is essentially a fixed-price contract with the only variable being the number of units of work performed. In our transmission and distribution contracts, units are generally measured by distance of infrastructure installed. We must estimate the costs of completing a particular project to bid for fixed-price and unit-price contracts. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for other expenses, including materials, as incurred. Our project-based work tends to be fixed-price.

We provide services under blanket MSAs on a project-by-project basis. MSAs are typically two- to three-years in duration. Under our blanket MSAs, our customers generally agree to use us to provide certain services in a specified geographic region. However, most of our contracts, including MSAs, may be terminated by our customers on short notice, typically 30 to 90 days, sometimes less. Further, although our customers assign work to us under the MSAs, our customers often have no obligation to assign work to us and are not required to use us exclusively, in some cases subject to our right of first refusal. In addition, many of our contracts, including our MSAs, are opened to public bid at the expiration of their terms and generally attract numerous bidders. Work performed under MSAs is typically billed on a unit-price or time-and-materials basis.

Through our TS segment, we are also party to licensing agreements where we agree to construct and lease fiber-optic telecommunications facilities, typically with lease terms from five to twenty-five years, including certain renewal options. Under these licensing agreements, our customers lease a portion of the capacity of a fiber-optic facility, with the facility owned and maintained by us. We are paid a recurring monthly rental fee and sometimes are paid an upfront non-recurring fee, often as an installation fee.

Materials and Independent Contractors

Our clients supply the majority of the materials and supplies necessary to carry out our contracted work. We do, however, from time to time, obtain materials and supplies for our own account from independent third-party providers. We do not manufacture any significant amount of materials or supplies for resale. We are not dependent on any one supplier for any materials or supplies that we obtain for our own account. The recent increase in demand for transmission services has strained production resources, creating significant lead-time for obtaining transmission towers and poles. Our electric transmission project revenues could be significantly reduced or delayed due to the difficulty we or our customers may experience in obtaining required materials. We are not presently experiencing, nor do we anticipate experiencing, any difficulties in procuring an adequate amount of materials and supplies other than transmission towers and poles.

We occasionally use subcontractors to perform portions of our contracts and to manage workflow. These independent contractors typically are sole proprietorships or small business entities. Independent contractors normally provide their own employees, vehicles, tools and insurance coverage. We are not dependent on any single independent contractor. Our contracts with our subcontractors often contain provisions limiting our obligation to pay the subcontractor if our client has not paid us and to hold our subcontractors liable for their portion of the work. We generally require surety bonding from our subcontractors on projects for which we supply surety bonds to our customers.

Equipment

We operate a fleet of owned and leased trucks and trailers, support vehicles and specialty construction equipment, such as backhoes, excavators, trenchers, generators, boring machines, cranes and wire pullers and tensioners. We have approximately 9,000 units, consisting of our fleet and equipment. Most of this fleet is serviced by our own mechanics who work at various maintenance sites and facilities. We believe that these vehicles generally are well maintained and adequate for present operations.

Training, Quality Assurance and Safety

Performance of our services requires the use of heavy equipment and exposure to potentially dangerous conditions. We are committed to a policy of operating safely and prudently. We require that employees complete the prescribed training program of the operating subsidiary for which they work in addition to those required by the National Electrical Contractors Association, or (NECA), the International Brotherhood of Electrical Workers, or (IBEW), and Office of Pipeline Safety Operator Qualification prior to performing more sophisticated and technical jobs. For example, all journeyman linemen are required by the IBEW and NECA to complete a minimum of 7,000 hours of on-the-job training, approximately 200 hours of classroom education and extensive testing and certification. Each operating subsidiary requires additional training, depending upon the sophistication and technical requirements of each particular job. In addition, certain of our employees maintain Department of Transportation Commercial Drivers Licenses and Operator Qualifications as required by their job functions. The Occupational Safety and Health Administration s (OSHA) recordable rate of most of our operating subsidiaries has historically been less than the industry rate. However, the OSHA recordable rate of certain of our subsidiaries has historically been higher than the industry average. As is common in our industry, we regularly have been and will continue to be subject to claims by employees, customers and third parties for property damage and personal injuries.

Risk Management and Insurance

We are committed to ensuring that our employees perform their work safely. We regularly communicate with our employees to promote safety and to instill safe work habits.

We have agreements to insure us for workers compensation and employer s liability, auto liability and general liability, subject to deductibles of $0.75 million, $0.5 million and $0.75 million per occurrence, respectively. In addition, we have a corridor retention deductible of $1.0 million on our excess liability insurance relating to general liability. The corridor retention deductible applies on a per claim basis to general liability claims between $2.0 million and $3.0 million; however the corridor retention deductible is limited to $1.0 million for aggregate claims incurred during the policy period. Our workers compensation and insurance expenses have been increasing for several years. Because of these deductibles and the rising cost of insurance, we have a direct incentive to minimize claims. The nature and frequency of employee claims directly affect our operating performance. Because of the physical and sometimes dangerous nature of our business, we maintain substantial loss reserves for workers compensation claims. The reserves are based upon known facts and historical trends and management believes such accruals to be adequate. In addition, many of our customer contracts require us to maintain specific insurance coverage. Our insurers require us to maintain letters of credit to cover our deductible payment obligations, and the required support level increased in 2004. As of January 1, 2004, we replaced our $0.1 million deductible non-union health care benefit program with a fully indemnified program.

Regulation

Our operations are subject to various federal, state and local laws and regulations, including:

- state-by-state licensing requirements applicable to electricians and engineers;
- building and electrical codes;
- permitting and inspection requirements applicable to construction projects;
- regulations relating to worker safety and environmental protection;
- pipeline safety laws and federal regulations;
- telecommunications licensing requirements; and
- special bidding and procurement requirements on government projects.

Many state and local regulations governing electrical construction require permits and licenses to be held by individuals who have passed an examination or met other requirements.

Environmental Matters

We are committed to the protection of the environment and train our employees to perform their duties accordingly. We are subject to numerous federal, state and local environmental laws and regulations governing our operations, including the handling, transportation and disposal of non-hazardous and hazardous substances and wastes, as well as emissions and discharges into the environment, including discharges to air, surface water and groundwater and soil. We also are subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or properties to which substances or wastes were sent by current or former operations at our facilities, regardless of whether we directly caused the contamination or violated any law at the time of discharge or disposal. The presence of contamination from such substances or wastes could interfere with ongoing operations, adversely affect our ability to sell or lease our properties, or to use them as collateral for financing. In addition, we could be held liable for significant penalties and damages under environmental laws and could also be subject to a revocation of licenses or permits, which could materially and adversely affect our business and results of operations.

From time to time, we have incurred and are incurring costs and obligations for correcting environmental noncompliance matters and for remediation at or relating to certain of our properties. We believe we have complied with, or are currently complying with, our environmental obligations to date and that such liabilities will not have a material adverse effect on our business or financial performance. For a number of these matters, we have obtained indemnification or covenants from third parties (including predecessors or lessors) for such cleanup and other obligations and liabilities that we believe are adequate to cover such obligations and liabilities. However, such third-party indemnities or covenants may not cover all our costs, and such unanticipated obligations or liabilities, or future obligations and liabilities may have a material adverse effect on our business operations or financial condition. Further, we cannot be certain that we will be able to identify or be indemnified for all potential environmental liabilities relating to any acquired business.

Performance Bonds and Letters of Credit

Historically, approximately 10% to 20% of our annual volume of business requires performance bonds or other means of financial assurance to secure contractual performance. Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more restrictive. In September 2003, we entered into a new bonding program, which we believe should be sufficient for normal operations. Our bonding program is currently secured by a $2.5 million letter of credit which will be released upon a minimum tangible net worth target. We will attempt to obtain additional unsecured bonding capacity for business opportunities arising above the current program.

Certain of our vendors require letters of credit to ensure reimbursement for amounts they are disbursing on our behalf, such as to beneficiaries under our self-funded insurance programs. We also post letters of credit to support our surety bond program and customers may require us to post letters of credit to guarantee performance under certain of our contracts. We had $28.1 million in letters of credit outstanding as of December 31, 2004 under our credit facility, primarily to secure obligations under our casualty insurance program and support our surety bonding program. In addition, Maslonka has a $5.0 million letter of credit outstanding which is collateralized with a $5.0 million time deposit.

Employees

At December 31, 2004, we employed approximately 4,200 persons, of which approximately 45% were unionized.

Our number of employees, particularly the number of general laborers, fluctuates depending upon the number and size of the projects and contracts undertaken by us at a particular time. For example, in 2004, our number of employees ranged from approximately 2,950 to 4,750. We have contracts with numerous unions, including the NECA and the IBEW, among others. We believe that our relationships with our employees and union representatives are good.

We have from time-to-time experienced shortages of certain types of qualified personnel. For example, there is currently a shortage of linemen capable of working on and supervising the construction of high-voltage lines. Linemen are frequently recruited across geographic regions to satisfy demand. The supply of experienced linemen and supervisors may not be sufficient to meet current or expected demand. Further, we may not be able to allocate or hire sufficient project managers for new electric power transmission projects. As a result, we may not be able to pursue certain projects and we may not be able to maintain an adequate skilled labor force necessary to operate efficiently and support our business strategy.

Risk Factors

Our business involves numerous risks, many of which are beyond our control. The following is a description of those risks and their potential impact on our business. For additional information about factors that may affect our business, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operation.

Demand for our services is cyclical and vulnerable to downturns in the industries we serve, which may result in extended periods of low demand for our services.

The demand for infrastructure services in the industries we serve has been, and will likely continue to be, cyclical in nature and vulnerable to general downturns in the U.S. economy. A number of other factors, including financial conditions in the industries we serve, could adversely affect our customers and their ability or willingness to fund capital expenditures in the future. For example, we have experienced reductions in our revenues from independent power producers in 2003 and 2004, which reflect the significant decline in construction activity and new construction awards for power generation projects. The demand for our services to natural gas distribution customers is affected by the level of new housing construction. In addition, our petrochemical customers demand has recently been restrained by the impact of high natural gas prices. We are also dependent on the amount of infrastructure services that our customers outsource. During downturns in the economy, our customers may determine to outsource fewer projects resulting in decreased demand for our services. In addition, the historical trend toward outsourcing of infrastructure services may not continue as we expect. As a result, demand for our services could decline substantially for extended periods, particularly during economic downturns, which could decrease our revenues, margins, profits and cash flows.

The award of new contracts and the timing of these awards may result in unpredictable fluctuations in our cash flow and profitability.

A substantial portion of our revenues is derived from project-based work. It is generally very difficult to predict whether and when we will be awarded contracts for significant projects, resulting in unpredictability in our cash flow and profitability. We expect to have a higher percentage of revenues from large-scale projects going forward, further exacerbating the unpredictability of our operating results. For example, the Path 15 project which was an approximately $90.0 million contract, was substantially completed in 2004. There can be no assurance that we will be awarded contracts for other similar projects to replace the revenues and profits that were generated from the Path 15 contract.

In addition, some of our contracts are subject to financing and other contingencies that may delay or result in termination of projects. In certain circumstances, customers may require us to provide credit enhancements, including surety bonds, letters of credit and, in rare instances, cash collateral, which we may be unable to satisfactorily obtain or provide, placing us at a competitive disadvantage compared to providers with more liquidity. The uncertainty of our contract award timing can also present difficulties in matching workforce size with contract needs. In some cases, we maintain and bear the cost of a ready workforce that is larger than necessary in anticipation of future workforce needs for expected contract awards. If an expected contract award is delayed or not received, we could incur costs that could be substantial without receipt of any corresponding revenues. Delays by our customers in obtaining required approvals for their infrastructure projects may delay their awarding contracts for those projects and, once awarded, the ability to commence construction under those contracts.

We derive a significant portion of our revenue from a small group of customers. The loss of one or more of these customers could negatively impact our revenues.

Our top ten customers accounted for approximately 48% and 46% of our revenues for the years ended December 31, 2003 and 2004, respectively, which includes work performed for those customers as a subcontractor through others. Revenues from Exelon accounted for 17% of our revenues for the year ended December 31, 2004. In September 2003, we entered into a volume agreement with Exelon, pursuant to which we are assured a continuing level of business from Exelon through 2006 at approximately the same levels as in 2003, subject to earlier termination under limited circumstances. Revenue under the contract may vary significantly from period-to-period during the term of the agreement. Further, we may be unable to sustain our volume of business with Exelon after expiration of the contract. If we lose significant customers and are not able to replace them, we could sustain decreased revenues, margins, and profits.

The departure of key personnel could disrupt our business.

We depend on the continued efforts of our executive officers and other members of our senior management. Although we have entered into employment agreements with most of our executive officers and certain other key employees, we cannot be certain that any individual will continue in such capacity for any particular period of time. The loss of key personnel, or the inability to hire and retain qualified employees, could negatively impact our ability to manage our business. We generally do not carry key-person life insurance on our employees.

The anticipated investment in electric infrastructure may not be as large as expected, which could reduce demand for our services or slow our growth.

Our business strategy is dependent, in part, upon the expected increased investment in the electric power grid, which may not materialize. This expected increase is based, in part, upon prospects for passage of new Federal energy legislation and adoption of incentive-based ratemaking initiatives being considered by FERC. There is considerable uncertainty as to when or whether the United States Congress will pass comprehensive Federal energy legislation as currently proposed, or whether it will enact any other form of energy legislation that would improve the prospects for increased investment in energy infrastructure. Even if Federal energy legislation is passed, the legislation may not incentivize increased investments in electric power transmission infrastructure in a manner that will increase demand for our services. In addition, it is uncertain whether FERC will establish incentive-based ratemaking for all or new interstate transmission under the control of regional transmission operators. Continued uncertainty may result in decreased demand or slower growth in demand for our services.

Seasonal and other variations may cause significant fluctuations in our cash flows and profitability.

A significant portion of our business is performed outdoors, subjecting our results of operations to seasonal variations. Less work is performed by us in the winter months, and work is hindered during other inclement weather events. Our profitability often decreases during the winter months and during severe weather conditions because work performed during these periods is more costly to complete. For example, severe conditions increased the cost and reduced the profitability of many of our subsurface construction projects during the second and third quarters of 2004. In addition, during periods of peak electricity demand, utilities generally are unable to remove their electric power transmission and distribution equipment from service, decreasing the demand for our maintenance services during these periods. Significant disruptions in our ability to perform services because of these factors could have a material adverse effect on our cash flows and results of operations.

Our dependence upon fixed-price contracts could result in reduced profitability or losses on projects.

We currently generate, and expect to continue to generate, the majority of our revenues under fixed-price contracts. Under fixed-price contracts, we agree to perform the entire project for a fixed-price on an agreed upon schedule. We may be unable to recover any cost overruns to the approved contract price. For example in the past, we have experienced delays and additional costs from severe weather conditions and the required replacement of third party defective materials, which we were unable to recover. As a result, our actual revenue and gross profits for a project may differ from those we originally estimated and could result in reduced profitability or losses on the project. Depending on the size of a particular project, variations from the estimated contract costs can have a significant impact on our operating results for any fiscal quarter or year. Our acquisition of Maslonka has resulted in an increase in the proportion of our fixed-price contracts in 2004, as most of Maslonka s business has been performed on a fixed-price basis. We expect that industry trends will also increase the proportion of our fixed-price contracts.

Our customers often have no obligation to assign work to us and many of our contracts may be terminated on short notice. As a result, we are at risk of losing significant business on short notice.

Certain of our customers assign work to us under MSAs. Under these arrangements, our customers generally have no obligation to assign work to us. Most of our contracts, including our MSAs may be terminated by our customers on short notice, typically 30 to 90 days, sometimes less. Moreover, our reported backlog includes estimated work to be performed under these agreements. Our backlog may not be realized as revenues if these contracts are cancelled. In addition, many of our contracts, including our MSAs, are open to competitive bidding at the expiration of their terms. As a result, we have been displaced on contracts by competitors from time to time. Our revenues could materially decline if our customers do not assign work to us or if they cancel a significant number of contracts and we cannot replace them with similar contracts.

Project delays or cancellations may result in additional costs to us, reductions in revenues or the payment of liquidated damages.

In certain circumstances, we guarantee project completion by a scheduled acceptance date or achievement of certain acceptance and performance testing levels. Failure to meet any of these schedules or performance requirements could result in additional costs or penalties, including liquidated damages, and these amounts could exceed expected project profit margins. Many of our projects involve challenging engineering, procurement and construction phases that may occur over extended time periods, sometimes up to two years. We may encounter difficulties in engineering, equipment and supply delivery, schedule changes, weather-related delays and other factors, some of which are beyond our control, that impact our ability to complete the project in accordance with the original delivery schedule. In addition, we occasionally contract with third-party subcontractors to assist us with the completion of contracts. Any delay by suppliers or by subcontractors in the completion of their portion of the project, or any failure by a subcontractor to satisfactorily complete its portion of the project may result in delays in the overall progress of the project or may cause us to incur additional costs, or both. We also may encounter project delays due to local public opposition against the siting of transmission lines or other facilities, which may include injunctive actions as well as public protests. For example, the construction of the Arrowhead to Weston transmission line project was delayed for several years due to such factors, and some delays in this project continue to occur.

Delays and additional costs may be substantial and, in some cases, we may be required to compensate the project customer for these delays. We may not be able to recover all of these costs. In extreme cases, the above-mentioned factors could cause project cancellations, and we may not be able to replace such projects with similar projects or at all.

In addition, our project contracts may require that our customers or other parties provide us with design or engineering information or with equipment or materials to be used on a project. In some cases, we may be provided with deficient design or engineering information or equipment or provided with information or equipment later than required by the project schedule. Our customers may also determine, after commencement of the project, to change various elements of the project. Under these circumstances, we generally negotiate with the customer with respect to the amount of additional time required and the compensation to be paid to us. We are subject to the risk that we may be unable to obtain, through negotiation, arbitration, litigation or otherwise, adequate amounts to compensate us for the additional work or expenses incurred by us due to customer-requested change orders or failure by the customer to timely provide items required to be provided by the customer. A failure to obtain adequate compensation for these matters could require us to record a negative adjustment to amounts of revenue and gross profit that were recognized in prior periods under the percentage-of-completion accounting method. Any such adjustments could be substantial.

Skilled labor shortages and increased labor costs could negatively affect our ability to operate efficiently.

We have from time-to-time experienced shortages of certain types of qualified personnel. For example, there is currently a shortage of linemen capable of working on and supervising the construction of high-voltage lines. Linemen are frequently recruited across geographic regions to satisfy demand. The supply of experienced linemen and supervisors may not be sufficient to meet current or expected demand. Further, we may not be able to allocate or hire sufficient project managers for new electric power transmission projects. As a result, we may not be able to pursue certain projects and we may not be able to maintain an adequate skilled labor force necessary to operate efficiently.

Our use of percentage-of-completion accounting could result in a reduction or elimination of previously reported profits.

A significant portion of our revenues is recognized on a percentage-of-completion method of accounting, using primarily the cost-to-cost method. This method is used because management considers expended costs to be the best available measure of progress on our fixed-price contracts. The percentage-of-completion accounting practice we use results in our recognizing contract revenues and earnings over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. Contract losses are recognized in full when determined, and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Further, a substantial portion of our contracts contain various cost and performance incentives. Penalties are recorded when known or finalized, which is generally during the latter stages of the contract. In addition, we record earnings on cost recovery of claims when we believe recovery is probable and the amounts can be reasonably estimated; otherwise claims are recognized as revenues only to the extent of costs incurred. Actual collection of claims could differ from estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, it is possible that such adjustments could be significant.

Provisions of our credit facility restrict our business operations and may restrict our access to sufficient funding, including letters of credit, in the future to finance desired growth.

We have a credit facility with a group of financial institutions secured by substantially all of our assets. The credit facility contains customary events of default and covenants that limit us from taking certain actions without obtaining the consent of the lenders. In addition, our credit facility requires us to achieve certain financial ratios. These restrictions and covenants may limit our ability to respond to changing business and economic conditions and we may be prevented from engaging in transactions that might otherwise be considered beneficial to us, including strategic acquisitions. Covenants in our credit facility also restrict our ability to incur indebtedness, subject to certain exceptions, including domestic intercompany indebtedness, guarantee obligations incurred in the ordinary course of business, up to $20.0 million of secured indebtedness incurred to acquire fixed or capital assets, indebtedness in respect of performance bonds, letters of credit and similar obligations incurred in the ordinary course of business, and up to $40.0 million of additional indebtedness. We had $56.9 million of availability under the revolving credit portion of our credit facility as of December 31, 2004 (after giving effect to $28.1 million of outstanding letters of credit under the credit facility at that date).

Our business also frequently requires us to post letters of credit, which reduces availability under the revolving credit portion of our credit facility. If we are required to post letters of credit in excess of the $68.0 million sublimit in effect as of December 31, 2004 under our credit facility, we would be required either to increase this sublimit or cash collateralize the letters of credit. We cannot assure you that we would be able to increase the sublimit under our credit facility or that we would have sufficient cash to obtain the required letters of credit.

A breach of our credit facility, including our inability to comply with the required financial ratios, could result in an event of default. Upon an event of default under our credit facility, the lenders would be entitled to accelerate the repayment of amounts outstanding, plus accrued and unpaid interest. Moreover, the lenders would have the option to terminate any obligation to make further extensions of credit under our credit facility. Upon the event of a default under any of our secured indebtedness, including our credit facility which is secured by substantially all of our assets, the lenders could proceed to foreclose against the assets securing such obligations. In the event of a foreclosure on all or substantially all of our assets, we may not be able to continue to operate as a going concern.

If we are not successful in integrating companies that we acquire or have acquired, we may not achieve the expected benefits and our profitability could suffer.

One of our business strategies is to pursue highly strategic acquisitions. We completed several acquisitions during 2004 and plan to continue to consider strategic acquisitions now and in the future. Integrating acquisitions is often costly, and delays or other operational or financial problems may result that interfere with our operations. In addition, our operating subsidiaries have generally maintained their own procedures and operating systems, which make it more difficult for us to evaluate and integrate their systems and controls on a reliable company-wide basis. We have imposed or are imposing specific company-wide requirements on our operating subsidiaries in a number of areas as we continue the process of integrating our acquired businesses, but these requirements may not be effective. We may experience difficulties implementing these new company-wide systems. If we fail to implement proper overall business controls for companies we acquire or fail to successfully integrate these acquired companies in our processes, our financial condition and results of operations could be adversely affected. In addition, it is possible that we may incur significant expenses in the evaluation and pursuit of potential acquisitions and that such acquisitions may not be successfully completed. In these events, we may incur substantial costs without any corresponding benefit.

A significant portion of our business depends on our ability to provide surety bonds. We may be unable to compete for or work on certain projects if we are not able to obtain the necessary surety bonds.

Surety market conditions are currently difficult as a result of significant losses incurred by many sureties in recent periods, both in the construction industry as well as in certain larger corporate bankruptcies. As a result, less bonding capacity is available in the market and terms have become more expensive and restrictive. We are required to post letters of credit to support our surety bond program. Further, under standard terms in the surety market, sureties issue bonds on a project-by-project basis and can decline to issue bonds at any time. Historically, approximately 10% to 20% of our annual volume of business, including a number of our fixed-price contracts, has required bonds. These percentages may increase depending on our mix of contracts. Current or future market conditions, as well as changes in our surety s assessment of our operating and financial risk, could cause our surety providers to decline to issue, or substantially reduce the amount of, bonds for our work and could increase our bonding costs. These actions can be taken on short notice. If our surety providers were to limit or eliminate our access to bonding, our alternatives include seeking bonding capacity from other sureties, finding more business that does not require bonds and posting other forms of collateral for project performance, such as letters of credit or cash. We may be unable to provide these alternatives in a timely manner, on acceptable terms or at all. Accordingly, if we were to experience an interruption or reduction in the availability of bonding capacity, we may be unable to compete for or work on certain projects.

We are subject to the risks associated with being a government contractor.

We are a provider of services to government agencies, primarily the U.S. Department of Energy s Federal power marketing agencies, such as the BPA. Therefore, we are exposed to the risks associated with government contracting. For example, a reduction in spending by government agencies could limit the continued funding of existing contracts with these agencies and could limit our ability to obtain additional contracts, which could result in lower revenues from these customers. The risks of government contracting also include the risk of civil and criminal fines and penalties for violations of applicable regulations and statutes and the risk of public scrutiny of our performance on high profile sites. In addition, our failure to comply with the terms of one or more of our government contracts, other government agreements, or government regulations and statutes could result in our being suspended or barred from future government contract projects for a significant period of time.

In addition, government customers typically can terminate or modify their contracts with us at their convenience, and some of these government contracts are subject to renewal or extension annually. If a government customer terminates a contract or fails to renew or extend a contract, our backlog or revenue may be reduced or we may incur a loss, either of which could impair our financial condition and operating results. A termination due to our unsatisfactory performance could expose us to liability and adversely affect our ability to compete for future contracts and orders. In cases where we are a subcontractor, the prime contract could be terminated, regardless of the quality of our services as a subcontractor or our relationship with the relevant government agency. Our government customers can also reduce the value of existing contracts, issue modifications to a contract, and control and potentially prohibit the export of our services and associated materials.

Our projects are subject to numerous hazards. If we do not maintain an adequate safety record, we may be ineligible to bid on certain projects, could be terminated from existing projects and could have difficulty procuring adequate insurance.

Hazards related to our activities include electrocutions, fires, natural gas explosions, mechanical failure, transportation accidents and damage to equipment we work on. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and other consequential damages, including blackouts, and may result in suspension of operations, large damage claims, and, in extreme cases, criminal liability. At any given time, we are subject to multiple workers compensation and personal injury claims. We maintain substantial loss accruals for workers compensation claims, and our workers compensation and insurance costs have been rising for several years notwithstanding our emphasis on safety. Our insurance does not cover all types or amounts of liabilities. Our third-party insurance is subject to large deductibles for which we establish reserves and, accordingly, we effectively self-insure for much of our exposures. In addition, for a variety of reasons such as increases in claims, a weak economy, projected significant increases in medical costs and wages, lost compensation, and reductions in coverage, insurance carriers may be unwilling to provide the current levels of coverage without a significant increase in collateral requirements to cover our deductible obligations. We may not be able to maintain adequate insurance at reasonable rates or meet collateral requirements. Further, regulatory changes implemented by OSHA could impose additional costs on us. Our safety record is an important consideration for our customers. If serious accidents or fatalities occur or our safety record was to deteriorate, we may be ineligible to bid on certain projects and could be terminated from existing projects. In addition, our reputation and our prospects for future projects could be negatively affected. The OSHA recordable rate of certain of our subsidiaries has historically been higher than the industry average.

If we cannot improve on these subsidiaries safety records, we may not be able to bid successfully on future projects.

Our unionized workforce could cause interruptions in our provision of services. In addition, we contribute to multiemployer plans that could result in liabilities to us if these plans are terminated or we withdraw.

A significant percentage of our workforce is covered by collective bargaining agreements. Strikes or work stoppages could occur that would adversely impact our relationships with our customers and our ability to conduct our business.

In addition, we contribute to several multiemployer pension plans for employees covered by collective bargaining agreements. These plans are not administered by us, and contributions are determined in accordance with provisions of negotiated labor contracts. The Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Multiemployer Pension Plan Amendments Act of 1980, imposes certain liabilities upon employers who are contributors to a multiemployer plan in the event of the employer s withdrawal from, or upon termination of, such plan. We do not have information on the net assets and actuarial present value of the multiemployer pension plans unfunded vested benefits allocable to us, if any, or the amounts, if any, for which we may be contingently liable if we were to withdraw from any of these plans.

If Congress or the FCC changes the law or regulations that provide subsidies for telecommunications services to schools, libraries, and certain health-care facilities, demand for some of our telecommunications services could decrease substantially. Furthermore, additional regulation of our telecommunications services could reduce the profitability of those services.

Many of our telecommunications customers benefit from the Universal Service E-rate program, which was established by Congress in the 1996 Telecommunications Act and is administered by the Universal Service Administrative Company (USAC) under the oversight of the Federal Communications Commission (FCC). To remain eligible to provide services under this program in any state, we must maintain our telecommunications authorizations in that state. Under the E-rate program, schools**,** libraries and certain health-care facilities may receive subsidies for certain approved telecommunications services, internet access, and internal connections. From time to time, bills have been introduced in Congress that would eliminate or curtail the E-rate program. If such a bill were passed, or if the FCC or USAC were to further limit E-rate subsidies, it could result in a decrease in the demand for our telecommunications infrastructure services by certain customers.

It is our position that the telecommunications services that we provide wholly within a particular state are subject to regulation exclusively by such state. Thus, except for a few facilities that we offer across state lines, we believe that our telecommunications-related services are not subject to regulation by the FCC as interstate telecommunications services. It is possible that the FCC may take the position, as a result of an interpretation of existing regulations and/or a change to such regulations, that some of our services are subject to FCC regulation as interstate telecommunications services. We may also expand our service offerings to include activities that are definitely subject to FCC regulation. To the extent that we are subject to FCC regulation for interstate telecommunications services, we would be required to make certain filings and revenue-based contributions related to the federal Universal Service Fund, which could reduce the profitability of our telecommunications business. We could also be subject to fines if the FCC were to determine that any of our activities or positions violated its regulations.

We are required to assess the effectiveness of our internal controls over financial reporting, which will require significant effort and financial resources and could identify deficiencies that we would have to remedy. We are also planning to implement a company-wide information technology system which could disrupt our day-to-day operations temporarily.

In connection with our preparation of 2005 audited financial statements and thereafter, we are required to assess our internal controls over financial reporting as required by the Sarbanes-Oxley Act of 2002. We are currently in the evaluation phase of the design and operational effectiveness of our controls. To assist us on this project, we have supplemented our internal project teams with outside specialists. We expect our assessment of internal controls over financial reporting to require the commitment of substantial financial and personnel resources.

Since we are only in the evaluation process, we cannot predict whether we will identify material weaknesses in our systems or whether we will ultimately be able to conclude that our internal controls over financial reporting are effective. In the event deficiencies are discovered, we will investigate them, assess what effect, if any, they may have on our system of internal controls over financial reporting and, as appropriate, remediate them.

In addition, during 2005 and 2006, we plan to begin implementation of a new integrated, company-wide information technology system known as Enterprise Resource Planning (ERP), with an expected start up in 2006 or 2007. The ERP will replace the individual information technology systems of our operating subsidiaries and is designed to meet in a uniform manner the information technology needs of our operations, including financial systems, marketing, human resources, insurance, claims and surety bonding and communications. Development and implementation of the ERP will require substantial financial and personnel resources. While the ERP is designed to improve and enhance our information technology capabilities, implementation of an entirely new information technology system across all of our operating companies exposes us to the risks of start up of the new system and integration of that system with our existing systems and processes.

Our principal stockholders may exercise control over the Company.

Our principal stockholders currently own approximately 65% of our common stock. As a result, our principal stockholders, if they choose to act together, are able to exercise control over all matters requiring stockholder approval, including the election of directors, amendment of our charter and approval of significant corporate transactions, and have significant control over our management and policies. This control may have the effect of delaying or preventing changes in control or changes in management, or limiting the ability of other stockholders to approve transactions that they may deem in their best interest.

Our principal stockholders currently have three representatives serving as directors of the Company. We rely on the controlled company exception to the board of directors and committee composition independence requirements under the rules of the New York Stock Exchange. The controlled company exception does not modify the independence requirements of our audit committee.

Executive Officers of the Registrant

The following table sets forth certain information regarding our executive officers as of March 1, 2005:

Name	Age	Position(s)
David R. Helwig	53	Chief Executive Officer and President, Director
Terence R. Montgomery	41	Chief Financial Officer, Senior Vice President and Secretary
Stephen J. Reiten	55	President and Chief Operating Officer, MJ Electric, Inc.
Paul M. Daily	48	President and Chief Executive Officer, InfraSource Underground Services, Inc.
Lawrence P. Coleman	47	President, Blair Park Services, Inc. and Sunesys, Inc.
R. Barry Sauder	45	Vice President, Corporate Controller and Chief Accounting Officer

David R. Helwig has been the Chief Executive Officer of InfraSource Services since September 2003 and became a member of our board of directors in October 2003. Mr. Helwig also serves as President of InfraSource Incorporated, a position he has held since April 2002 and as Chief Executive Officer of InfraSource Incorporated, a position he has held since September 2003. Prior to joining InfraSource Services, Mr. Helwig served as President and as Chief Operating Officer of InfraSource Incorporated from April 2002 to September 2003 and as Executive Vice President of Commonwealth Edison from October 2000 through April 2002. Prior to his role as Executive Vice President of Commonwealth Edison, Mr. Helwig was the Senior Vice President of Exelon Corporation and Commonwealth Edison Nuclear Generation Groups from January 1998 through October 2000.

Terence R. Montgomery has been the Chief Financial Officer and Senior Vice President of InfraSource Services since September 2003. Mr. Montgomery joined InfraSource Incorporated in January 2000 and became its Chief Financial Officer in July 2001. Prior to his role as Chief Financial Officer, Mr. Montgomery served as Senior Vice President of Corporate Development at InfraSource Incorporated and Manager of Corporate Development at PECO Energy from April 1999 to January 2000.

Stephen J. Reiten joined InfraSource Incorporated as part of M.J. Electric, Inc., which was acquired by InfraSource Incorporated in December 2000. Mr. Reiten was named as M.J. Electric, Inc. s President in January 2002 and served as its Chief Operating Officer since 2001. From 1999 to 2001, Mr. Reiten served as M.J. Electric, Inc. s Director of Special Projects.

Paul M. Daily joined InfraSource Incorporated in December 2002 as the President and Chief Executive Officer of InfraSource Underground Services, Inc. Prior to joining InfraSource Incorporated, Mr. Daily served as Corporate Senior Vice President of Construction at Tyco Infrastructure Services from June 2000 through November 2002. Prior to employment with Tyco Infrastructure Services, Mr. Daily served as Vice President of Planning and Development for the Wilbros Group, an independent contractor serving the oil and gas industry.

Lawrence P. Coleman joined InfraSource Incorporated as part of Blair Park Services, Inc. and Sunesys, Inc., which were acquired by InfraSource Incorporated in January 2001. Mr. Coleman served as President and Vice President of Blair Park. Mr. Coleman was named President of Sunesys in January 2001. Prior to his position as President of Sunesys, Inc., Mr. Coleman served as Vice President and General Manager of Engineering/Business Development.

R. Barry Sauder joined InfraSource Services in April 2004 as Vice President, Corporate Controller and Chief Accounting Officer. Prior to joining InfraSource Services, Mr. Sauder served as the Vice President of Finance and Controller of GSI Commerce from December 2000 through April of 2004. From August of 2000 to December of 2000, Mr. Sauder was the Assistant Vice President and Corporate Controller of MainStream PCS. Mr. Sauder served as Director of Finance for GSI Commerce from August 1999 to August of 2000.

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Item 2. PROPERTIES

Our headquarters are located in Delaware County, Pennsylvania. As of December 31, 2004, we owned 24 facilities and leased 77 properties throughout the United States. With the exception of our headquarters and one other leased property used for TS operations, all facilities and properties are used for ICS operations. We have pledged our owned properties as collateral under our credit facility. Most of our properties are used as offices or fleet operations. We believe that our facilities are adequate for our current operations.

Item 3. LEGAL PROCEEDINGS

On February 7, 2003, Rahsanne Bickman filed suit in the Travis County District Court in Texas State Court against Maslonka and one employee alleging, among other things, gross negligence and seeking approximately $24 million in actual and compensatory damages arising out of the death of her son. On October 27, 2003, the father of the deceased, Kevin Sam, Sr., filed suit in Taylor County Texas District Court seeking unspecified damages. The claims arose out of an automobile accident that took place on December 1, 2002 on an interstate highway in Texas and resulted in death. In February 2004, Rahsanne Bickman s claims were resolved through an out of court settlement fully funded by insurance proceeds (less a $10,000 deductible). The dismissal order was entered on March 25, 2004. The claims of Kevin Sam, Sr. were initially docketed for trial on December 13, 2004; however the case was settled by our insurance carrier prior to the trial date.

In January 2004, a judgment was entered against InfraSource in Superior Court of Fulton County, Georgia in the amount of $3.8 million, including $3.2 million in punitive damages. The jury verdict upheld allegations by the plaintiff that in 1999 InfraSource Incorporated (formerly known as Exelon Infrastructure Services, Inc.) had fraudulently induced the plaintiff to incur expenses in connection with a proposed business acquisition that was never consummated. We filed a notice of appeal on February 19, 2004, and the plaintiff filed a notice of cross-appeal on March 2, 2004. All briefings have been completed and oral arguments were heard on October 13, 2004. A ruling is expected within six to ten months. A liability of $3.8 million was recorded in 2003 and is included in our consolidated balance sheet at December 31, 2003 and 2004, respectively.

In addition, pursuant to our service contracts, we also generally indemnify our customers for the services we provide thereunder. Furthermore, because our services are integral to the operation and performance of the electric power transmission and distribution infrastructure, we may become subject to lawsuits or claims for any failure of the systems that we work on, even if our services are not the cause for such failures, and we could be subject to civil and criminal liabilities to the extent that our services contributed to any property damage or blackout. The outcome of any such proceedings could result in significant costs and diversion of management s attention to our business. Payments of significant amounts, even if reserved, could adversely affect our reputation and liquidity position.

From time to time, we are a party to various other lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, claims and proceedings, we accrue reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe any of the proceedings currently pending, individually or in the aggregate, would be expected to have a material adverse effect on our results of operations, cash flows, or financial condition.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE.

PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (NYSE), and trades under the symbol IFS. The following table sets forth the low and high sales prices of our common stock, during each of the fiscal periods presented based on the NYSE consolidated transaction report:

	Low Sale Price	High Sale Price
Fiscal Year Ended December 31, 2004		
Second Quarter (from May 7, 2004)	$ 11.50	$ 13.14
Third Quarter	7.66	12.59
Fourth Quarter	10.10	14.98

According to the records of our transfer agent, there were approximately 1,578 stockholders of record as of March 8, 2005.

We currently intend to retain our future earnings, if any, to finance the growth, development and expansion of our business, and to reduce outstanding debt. Accordingly, we do not currently intend to declare or pay any cash dividends on our common stock in the immediate future. The declaration, payment and amount of future cash dividends, if any, will be at the discretion of our board of directors after taking into account various factors. These factors include our financial condition, results of operations, cash flows from operations, current and anticipated capital requirements and expansion plans, the income tax laws then in effect and the requirements of Delaware law. In addition, the terms of our credit facility include limitations on the payment of cash dividends by InfraSource Incorporated to us without the prior consent of the lenders.

Item 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for the last five fiscal years. The consolidated statement of operations data for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 and the consolidated balance sheet data at December 31, 2000, 2001, 2002, 2003 and 2004 have been derived from our consolidated financial statements, which include the results of our predecessor entity, InfraSource Incorporated, as of and for the years ended December 31, 2000, 2001 and 2002, and for the period January 1, 2003 to September 23, 2003, and our results for the period May 30, 2003 (date of inception) to December 31, 2003, and for the year ended December 31, 2004 and at December 31, 2003 and 2004. We had no operating activity prior to the Merger on September 24, 2003. Comparability of the 2003 periods to the year ended December 31, 2004 is also impacted by our acquisitions in 2004 of Maslonka, Utili-Trax, and EnStructure.

This selected financial data should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes included in Items 7 and 8, respectively, of this Form 10-K.

	For the Year Ended December 31, 2000 (Predecessor entity InfraSource Incorporated and Subsidiaries)	2001 (Predecessor entity InfraSource Incorporated and Subsidiaries)	2002 (Predecessor entity InfraSource Incorporated and Subsidiaries)	For the Period January 1 to September 23, 2003 (Predecessor entity InfraSource Incorporated and Subsidiaries)	For the Period May 30 to December 31, 2003	For the Year Ended December 31, 2004
	(in thousands, except share and per share data)					
Consolidated Statement of Operations Data:						
Contract revenues	$ 452,941	$ 609,327	$ 566,469	$ 382,627	$ 137,643	$ 651,023
Cost of revenues	368,573	502,788	459,706	330,322	113,819	546,746
Gross profit	84,368	106,539	106,763	52,305	23,824	104,277
Selling, general and administrative expenses	59,350	70,691	63,237	50,062	14,771	65,246
Merger related costs(1)				16,242		(228)
Provision (recoveries) for uncollectible accounts	10,049	8,676	7,964	236	178	(274)
Amortization of intangible assets and goodwill	7,269	16,047			2,600	12,350
Income (loss) from operations	7,700	11,125	35,562	(14,235)	6,275	27,183
Interest income	344	186	1,438	1,376	60	572
Interest expense and amortization of debt discount	(2,071)	(1,896)	(388)	(27)	(3,966)	(10,178)
Loss on early extinguishment of debt						(4,444)
Other income (expense)	1,287	976	8,189	(3,556)	(130)	1,166
Income (loss) before income taxes, discontinued operations, cumulative effect of a change in accounting principle and extraordinary item	7,260	10,391	44,801	(16,442)	2,239	14,299
Income tax expense (benefit)	4,406	7,049	14,564	(5,240)	923	5,824
Net income (loss) from continuing operations	2,854	3,342	30,237	(11,202)	1,316	8,475
Income (loss) from discontinued operations, net of tax	(843)	(9,386)	(1,574)	(12,316)	(57)	505
Gain on disposition of discontinued operation, net of tax						