MULTIBAND CORP
Form 10-Q
May 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

S
FOR THE QUARTERLY PERIOD ENDED **MARCH 31, 2012**
OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ________ TO ________

COMMISSION FILE NUMBER 0 – 1325

MULTIBAND CORPORATION

(Exact name of registrant as specified in its charter)

MINNESOTA

(State or other jurisdiction of incorporation or organization)

41 - 1255001

(IRS Employer Identification No.)

9449 Science Center Drive, New Hope, Minnesota 55428

(Address of principal executive offices) (Zip code)

Telephone (763) 504-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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 S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No £

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

Large accelerated filer £ Accelerated filer £

Non-accelerated filer £ (do not check if a smaller reporting company) Smaller reporting company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

On May 5, 2012, there were 21,797,410 shares outstanding of the registrant's common stock, no par value, and 281,696 outstanding shares of the registrant's convertible preferred stock.

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

MULTIBAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended	
	March 31, 2012 (unaudited)	March 31, 2011 (unaudited)
REVENUES	$72,227	$ 64,475
COSTS AND EXPENSES		
Cost of products and services (exclusive of depreciation and amortization shown separately below)	52,980	47,759
Selling, general and administrative	18,267	14,637
Depreciation and amortization	1,717	1,715
Total costs and expenses	72,964	64,111
INCOME (LOSS) FROM OPERATIONS	(737)	364
OTHER EXPENSE		
Interest expense	(914)	(986)
Interest income	6	8
Proceeds from life insurance	-	409
Other than-temporary impairment loss on available for-sale securities	(291)	-
Other income	26	64
Total other expense	(1,173)	(505)
NET LOSS BEFORE INCOME TAXES	(1,910)	(141)
BENEFIT FOR INCOME TAXES	(557)	(49)
NET LOSS	(1,353)	(92)

Preferred stock dividends	168	381
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(1,521)	$ (473)
LOSS PER COMMON SHARE – BASIC AND DILUTED:		
LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(0.07)	$ (0.05)
Weighted average common shares outstanding – basic and diluted	21,744	10,449

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(in thousands)

	March 31, 2012 (unaudited)		December 31, 2011 (audited)	
CURRENT ASSETS				
Cash and cash equivalents	$	10,434	$	18,169
Available-for-sale securities (see Note 4)		901		1,191
Accounts receivable, net		21,869		28,359
Inventories		10,074		14,276
Costs and estimated earnings in excess of billings on uncompleted contracts		1,106		998
Prepaid expenses and other		5,259		1,361
Income tax receivable		398		42
Deferred tax assets – current		7,789		6,862
Total Current Assets		57,830		71,258
PROPERTY AND EQUIPMENT, NET		10,032		6,304
OTHER ASSETS				
Goodwill		37,796		37,796
Intangible assets, net		14,368		14,597
Restricted cash – certificate of deposit		1,682		-
Insurance collateral		9,933		8,061
Other assets		1,482		2,452
Deferred tax assets – long-term		772		1,134
Total Other Assets		66,033		64,040
TOTAL ASSETS	$	133,895	$	141,602

See accompanying notes to the unaudited condensed consolidated financial statements

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MULTIBAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

(in thousands, except share and liquidation preference amounts)

	March 31, 2012 (unaudited)	December 31, 2011 (audited)
CURRENT LIABILITIES		
Short-term debt	$ 3,789	$ 457
Current portion of long-term debt, net of original issue discount	34,321	4,936
Current portion of capital leases payable	466	324
Accounts payable	19,692	32,354
Billings in excess of costs and estimated earnings on uncompleted contracts	53	41
Accrued liabilities - current	23,609	24,113
Deferred service obligations and revenue	378	1,570
Total Current Liabilities	82,308	63,795
LONG-TERM LIABILITIES		
Accrued liabilities – long-term	4,960	5,352
Long-term debt, net of current portion and original issue discount	3,644	29,229
Capital lease obligations, net of current portion	654	274
Total Liabilities	91,566	98,650
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Cumulative convertible preferred stock, no par value:		
8% Class A (12,696 shares issued and outstanding, $133,308 liquidation preference)	191	191
10% Class C (109,000 shares issued and outstanding, $1,090,000 liquidation preference)	1,411	1,411
10% Class F (150,000 shares issued and outstanding, $1,500,000 liquidation preference)	1,500	1,500
8% Class G (10,000 shares issued and outstanding, $100,000 liquidation preference)	41	41
6% Class H (0.00 and 1.00 shares issued and outstanding, $0 and $100,000 liquidation preference)	-	-
Common stock, no par value (21,797,410 and 21,612,380 shares issued and outstanding)	66,775	66,290
Stock-based compensation	49,413	49,000
Accumulated deficit	(77,002)	(75,481)
Total Stockholders' Equity	42,329	42,952
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 133,895	$ 141,602

See accompanying notes to the unaudited condensed consolidated financial statements

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MULTIBAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	THREE MONTHS ENDED MARCH 31,	
	2012	2011
OPERATING ACTIVITIES	(unaudited)	(unaudited)
Net loss	$(1,353)	$ (92)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,717	1,715
Amortization of original issue discount	24	24
Amortization and expense related to debt issuance costs	-	32
Change in allowance for doubtful accounts receivable	54	(1)
Loss (gain) on sale of property and equipment	(75)	-
Other-than-temporary impairment loss on available-for-sale securities	291	-
Stock based compensation expense	540	483
Deferred income taxes, net	(565)	(12)
Changes in operating assets and liabilities:		
Accounts receivable	6,435	178
Cost and estimated earnings in excess of billings on uncompleted contracts	(108)	-
Inventories	4,202	212
Prepaid expenses and other	146	783
Income tax receivable	-	(125)
Insurance collateral	(1,381)	-
Other assets	626	48
Accounts payable and accrued liabilities	(13,634)	2,516
Billings in excess of costs and estimated earnings on uncompleted contracts	13	-
Deferred service obligations and revenue	(1,192)	26
Net cash flows provided by (used for) operating activities	(4,260)	5,787
INVESTING ACTIVITIES		
Purchases of property and equipment	(686)	(344)
Purchases of intangible assets	(729)	(153)
Proceeds from sale of equipment	43	-
Proceeds from purchase of land and building	685	-
Increase in restricted cash – certificate of deposit	(1,682)	-
Collections on notes receivable	2	2
Net cash flows used in investing activities	(2,367)	(495)
FINANCING ACTIVITIES		
Payments on long-term debt	(26)	(4)
Payments on short-term debt	(909)	(2,953)
Payments on short-term debt – related party	-	(50)
Payments on capital lease obligations	(118)	(105)
Net repayment on line of credit	-	(5)

Stock options and warrants exercised	-	24
Preferred stock dividends	(55)	(61)
Net cash flows used in financing activities	(1,108)	(3,154)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,735)	2,138
CASH AND CASH EQUIVALENTS - Beginning of Period	18,169	1,204
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 10,434	$ 3,342

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	THREE MONTHS ENDED MARCH 31,	
	2012	2011
	(unaudited)	(unaudited)
Cash paid for interest, net of amortization of OID and interest discount	$ 883	$ 945
Net cash paid for federal and state income taxes	415	81
Non-cash investing and financing transactions:		
Intrinsic value of preferred dividends	100	17
Conversion of accrued dividends into common stock	-	234
Conversion of preferred stock into common stock	100	24
Increase in prepaid expenses via short-term debt issued	4,240	9,859
Reduction in debt by other receivable	1	350
Reduction of accrued expenses with the issuance of stock options	258	169
Purchase of land and building via mortgage assumed	3,803	-
Purchase of property and equipment with the increase in capital lease obligations	243	-

See accompanying notes to the unaudited condensed consolidated financial statements

MULTIBAND CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

(in thousands, except for share and per share amounts)

NOTE 1 - Unaudited Consolidated Financial Statements

The information furnished in this report is unaudited and reflects all adjustments which are normal recurring adjustments and, which in the opinion of management, are necessary to fairly present the operating results for the interim periods. The operating results for the interim periods presented are not necessarily indicative of the operating results to be expected for the full fiscal year. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, previously filed with the Securities and Exchange Commission.

NOTE 2 - Summary of Significant Accounting Policies

Nature of Business

Multiband Corporation and subsidiaries (the Company) was incorporated in Minnesota in September 1975. The Company provides (1) contract installation services for the pay television industry (including satellite and broadband cable operators), internet providers and retailers, (2) voice, data and video services to residents of multi-dwelling units and (3) design, engineering and construction services for the wired and wireless telecommunications industry, including public safety networks, renewable energy services including wind and solar applications and other design and construction services. The Company's products and services are sold to customers located throughout the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. For the three months ended March 31, 2012 and 2011, the Company incurred net losses of $1,353 and $92, respectively. At March 31, 2012, the Company had an accumulated deficit of $77,002. The Company's ability to continue as a going concern is dependent on attaining profitability, refinancing its existing indebtedness and/or raising additional capital. Management may sell, if prudent, certain assets on a strategic basis for prices agreeable to the Company and/or obtain additional debt or equity capital to meet all of its existing cash obligations and fund commitments on planned projects; however, there can be no assurance that the sources will be available or available on favorable terms. Management anticipates that the impact of the actions listed below will generate sufficient cash flows to pay current liabilities, long-term debt, capital and operating lease obligations and fund operations for the next twelve months:

1. Maintain continued operating profit in FS segment (see Note 9).
2. Solicit additional equity investment in by issuing either preferred or common stock for general corporate purposes.
3. Obtain senior debt financing with extended terms to refinance the note payable to DirecTECH Holding Company, Inc., which matures on January 1, 2013.
4 Expand call center support with sales of call center services to both existing and future system operators.
5. Improve results in the MDU segment by reshaping its owned subscriber footprint to gain efficiencies and by expanding its managed subscriber base by adding new system operators.
6. Improve results in the newly diversified business segments by further integrating these segments into traditional systems and processes.

Principles of Consolidation

The 2012 consolidated financial statements include the accounts of Multiband Corporation (MBCorp) and its wholly owned subsidiaries, Minnesota Digital Universe, Inc. (MNMDU), Multiband Subscriber Services, Inc. (MBSS), Multiband Field Services, Incorporated (MBFS), Multiband MDU Incorporated (MBMDU), Multiband DV Incorporated (DV), Multiband Security Incorporated (Security), Multiband Engineering and Wireless, Southeast Inc. (SE) and Multiband Engineering and Wireless, Midwest Inc. (MW).

The 2011 consolidated financial statements include the accounts of Multiband Corporation (MBCorp) and its wholly owned subsidiaries, Minnesota Digital Universe, Inc. (MNMDU), Multiband Subscriber Services, Inc. (MBSS), Multiband NC Incorporated (NC), Multiband NE Incorporated (NE), Multiband SC Incorporated (SC), Multiband EC Incorporated (EC), Multiband MDU Incorporated (MBMDU), Multiband DV Incorporated (DV), Multiband Security Incorporated (Security), Multiband Engineering and Wireless, Southeast, Inc. (SE) and Multiband Engineering and Wireless, Midwest, Inc. (MW). Effective December 31, 2011, the NC, SC and EC subsidiaries were merged into the NE subsidiary with NE being the surviving entity. Effective February 20, 2012, NE has been renamed Multiband Field Services, Incorporated (MBFS).

All intercompany balances and transactions have been eliminated in the preparation of the consolidated financial statements.

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(in thousands, except for share and per share amounts)

Revenue Recognition

The Company recognizes revenue in accordance with the Accounting Standards Code (ASC) Topic No. 605, Revenue Recognition, which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence of a customer arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. The Company recognizes revenue as services are performed and completed.

The Company has three operating segments: (1) FS, where the Company provides installation services to pay television (satellite and broadband cable) providers, internet providers and commercial customers, (2) MDU, where the Company bills voice, internet and video services to subscribers as owner/operator and also acts as a master system operator for DIRECTV, receiving net cash payments for managing video subscribers through its network of system operators and (3) Engineering, Energy & Construction (EE&C) where the Company provides engineering and construction services for the wired and wireless telecommunications industry, including public safety networks, renewable energy services including wind and solar applications and other design and construction services, usually done on a project basis (see Note 9 for changes with segment descriptions).

The Company earns FS segment revenue when services have been completed.

The Company earns MDU segment revenue as follows:

- from the sale and installation of voice, video and data communications products; and
- from the direct billing of user charges to residents of multi-dwelling units, through the activation and enhancement of, and related residual fees, of video programming, voice and data communication services.

MDU segment user charges are recognized as revenue in the period the related services are provided. Any amounts billed prior to services being provided are included in our balance sheets as deferred service obligations and revenues.

Revenue generated from activation of video programming services is earned in the month of activation. According to the Company's Master System Operator agreement with DIRECTV, in the event that a customer cancels within the first twelve months of service, DIRECTV has the right to charge the Company for a portion of the activation fees previously received. The Company has estimated the potential chargeback of commissions received on activation fees during the past twelve months based on historical percentages of customer cancellations and has included that amount as a reduction of revenue. Residual income is earned as services are provided by DIRECTV through its system operators. As a master system operator for DIRECTV, the Company earns a fixed percentage based on net cash received by DIRECTV for recurring monthly services, a variable amount depending on the number of activations in a given month, and a variable amount for coordinating improvements of systems used to deliver enhanced programming services. The Company's master system operator relationship with DIRECTV also permits the Company to earn revenues through its control of other system operators who are unable to provide DIRECTV video programming services without the Company's assistance.

The Company reports the aforementioned MDU voice, data, and video revenues on a gross basis based on the following factors: the Company has the primary obligation in the arrangement with its customers; the Company controls the pricing of its services; the Company performs customer service for the agreements; the Company approves customers; and the Company assumes the risk of payment for services provided. The Company offers some products and services that are provided by third party vendors. The Company reviews the relationship between itself, the vendor and the end customer on an individual basis to assess whether revenue should be reported on a gross or net basis. As an example, the Company's resold satellite digital television revenue is reported on a net basis.

MDU segment revenue generated by the support center to service third party clients by providing billing and call center support services is recognized in the period the related services are provided.

Customers contract for both the purchase and installation of voice and data networking technology products and certain video technologies products. Revenue is recognized when the products are delivered and installed and the customer has accepted and has the ability to fulfill the terms of the contract.

The Company's policy is to present taxes imposed on revenue-producing transactions on a net basis.

The Company generates revenues in the EE&C segment by providing design-build engineering and wireless services for communications infrastructure. We have customer contracts that span varying periods of time. We report revenue from contracts when persuasive evidence of an arrangement exists, fees are fixed or determinable, and collection is reasonably assured.

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(in thousands, except for share and per share amounts)

For the design-build engineering and wireless revenues, the Company records revenue and profit from long-term contracts on a percentage-of-completion basis, measured by the percentage of contract costs incurred to date to the estimated total costs for each contract. Contracts in process are valued at cost plus accrued profits less earned revenues and progress payments on uncompleted contracts. Contract costs include direct materials, direct labor, third party subcontractor services and those indirect costs related to contract performance. Contracts are generally considered substantially complete when engineering and/or site construction is completed.

For the design-build engineering and wireless revenues, the Company has numerous contracts that are in varying stages of completion. Such contracts require estimates to determine the appropriate revenue and costs to recognize. Cost estimates are reviewed monthly on a contract-by-contract basis, and are revised periodically throughout the life of the contract such that adjustments to profit resulting from revisions are made cumulative to the date of the revision. Significant management judgments and estimates, including the estimated cost to complete projects, which determines the project's percent complete, must be made and used in connection with the revenue recognized in the accounting period. Current estimates may be revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, provision is made currently for the total loss anticipated. The Company does not anticipate any losses at March 31, 2012.

The asset "costs and estimated earnings in excess of billings on uncompleted contracts" represents revenues recognized in excess of amounts billed. The liability "billings in excess of costs and estimated earnings on uncompleted contracts" represents billings in excess of revenues recognized.

The lengths of the contracts vary. Assets and liabilities related to long-term contracts are included in current assets and current liabilities as they will be liquidated in the normal course of contract completion, although this may require more than one year.

The Company also recognizes certain revenue from short-term contracts when equipment is delivered or the services have been provided.

Deferred Revenue

The Company invoices for certain installation upgrade projects when the project equipment is ordered. Revenue is deferred on these projects until the equipment is installed.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant management estimates relate to the allowances for doubtful accounts, charge back of DIRECTV activation fees, inventory obsolescence, stock based compensation, property and equipment estimated useful lives, goodwill and intangible assets carrying value and the valuation of deferred tax assets and liabilities.

Marketable Securities

We classify investments in marketable securities at the time of purchase. At March 31, 2012 and December 31, 2011, all marketable securities are classified as available-for-sale and as such, the investments are recorded at fair value with the unrealized gains and losses deemed to be temporary reported in stockholders' equity. Available-for-sale securities are investments in debt and equity securities that have a readily determinable fair value not classified as trading securities or as held-to-maturity securities. Realized gains and losses and declines in value judged to be other-than-temporary are included in other expenses in the consolidated statements of operations. On an ongoing basis, the Company evaluates its available-for-sale securities to determine if a decline in value is other-than-temporary. A decline in market value of any available-for-sale security below cost that is determined to be other-than-temporary, results in impairment to the fair value of the investment. Gains and losses on the sale of marketable securities are recognized in operations based on the specific identification method. Other-than-temporary impairments are charged to earnings and a new cost basis for the security is established. At March 31, 2012 and December 31, 2011, our investments consisted of common shares of WPCS International, Inc. (WPCS) which were purchased in June 2011. For the three months ended March 31, 2012, the Company recorded an other-than-temporary impairment loss of $291 on its investment in WPCS, which is recognized in other expenses in the consolidated statement of operations. In order to assess the likelihood that the stock price would recover to the price the Company paid, the Company reviewed WPCS trading history from 2010-2012. The trading history along with the financial performance of WPCS in 2011 and 2012 were indicators of an other-than-temporary impairment. On April 20, 2012, the Company sold 15,000 shares of WPCS at an average price of $1.40 per share, reducing its ownership level to less than 10%.

MULTIBAND CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(in thousands, except for share and per share amounts)

Accounts Receivable

The Company reviews customers' credit history before extending unsecured credit and establishes an allowance for uncollectible amounts based upon factors surrounding the credit risk of specific customers and other information. For the MDU and FS segments, the Company has concentrations of credit risk with 69.6% of accounts receivable at March 31, 2012, due from one customer (see Note 10). Invoices are due 30 days after presentation. Accounts receivable over 30 days are considered past due. The Company does not accrue interest on past due accounts receivable. Receivables are written off only after all collection attempts have failed and are based on individual credit evaluation and specific circumstances of the customer. Accounts receivable are shown net of an allowance for uncollectible accounts of $165 and $112 at March 31, 2012 and December 31, 2011, respectively.

Long-lived Assets

The Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There was no impairment of long-lived assets at March 31, 2012.

Goodwill and Other Intangible Assets

In accordance with ASC Topic No. 350, *Intangibles-Goodwill and Other*, goodwill and intangible assets without a defined life shall not be amortized over a defined period, but instead must be tested for impairment at least annually. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. The goodwill impairment test is a two-step impairment test. In the first step, the Company compares the fair value of each reporting unit to its carrying value. The Company’s estimates may differ from actual results due to, among other things, economic conditions, changes to its business models, or changes in operating performance. Significant differences between these estimates and actual results could result in future impairment charges and could materially affect the Company’s future financial results. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step in order to determine the implied fair value of the reporting unit’s goodwill and compare it to the carrying value of the reporting unit’s goodwill. The activities in the second step include valuing the tangible and intangible assets and liabilities of the impaired reporting unit based on their fair value and determining the fair value of the impaired reporting unit’s goodwill based upon the residual of the summed identified tangible and intangible assets and liabilities.

At March 31, 2012, the Company determined that there was no event which occurred or circumstance changed that would more likely than not reduce the fair value of its reporting units below their respective carrying values. Goodwill was $37,796 at both March 31, 2012 and December 31, 2011. The goodwill recorded as part of our FS segment was $37,440 at both March 31, 2012 and December 31, 2011. The goodwill recorded as part of our MDU segment was $356 at both March 31, 2012 and December 31, 2011. The EE&C segment did not have any goodwill at March 31, 2012 or December 31, 2011.

Components of intangible assets are as follows:

	March 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization				
Right of entry contracts	$3,203	$ 2,094	$3,174	$ 2,001
Contracts with DIRECTV	27,204			