INFRASOURCE SERVICES INC
Form 8-K/A
November 19, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 1

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) **November 19, 2004 (September 3, 2004)**

InfraSource Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**001-32164**	**03-0523754**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

100 West Sixth Street, Suite 300 **Media, Pennsylvania**	**19063**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(610) 480-8000**

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

This Form Current Report on 8-K/A, Amendment No. 1, is being filed for the purpose of filing the financial statements and pro forma financial information required by Item 9.01 with respect to the Current Report on Form 8-K filed by the registrant on September 7, 2004 regarding the acquisition of substantially all of the assets and certain liabilities of EnStructure Corporation (EnStructure). The transaction was structured as an acquisition of the assets of EnStructure s operating companies: Sub-Surface Construction Co., Flint Construction Company, and Iowa Pipeline Associates.

Item 9.01 **Financial Statements and Exhibits.**

(a) *Financial Statements of Businesses Acquired EnStructure*

(1) Report of Independent Auditors

Combined Financial Statements As of December 31, 2003 and 2002 and for the years ended December 31, 2003, 2002 and 2001

(2) Interim Combined Financial Statements As of December 31, 2003 and September 3, 2004 and for the periods January 1, 2003 through August 31, 2003 and January 1, 2004 through September 3, 2004 (Unaudited)

(b) *Pro Forma Financial Information (Unaudited).*

Unaudited Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2004 is not presented because the EnStructure transaction is included in the Company s Condensed Consolidated Balance Sheet as of September 30, 2004 filed in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
Unaudited Pro Forma Consolidated Statement of Operations for the nine months ended September 30, 2004
Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2003

(c) *Exhibits.*

23.1 Consent of Independent Accountants.

Report of Independent Auditors

To the Shareholder of Sub-Surface Construction Company,

Flint Construction Company and Iowa Pipeline Associates, Inc.:

In our opinion, the accompanying combined statements of financial position and the related combined statements of operations and cash flows present fairly, in all material respects, the financial position of Sub-Surface Construction Company, Flint Construction Company and Iowa Pipeline Associates, Inc. at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1 to the financial statements, effective January 1, 2002, the Companies changed its method of accounting related to goodwill in accordance with the adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ PricewaterhouseCoopers LLP

Detroit, Michigan
September 3, 2004

Sub-Surface Construction Co.

Flint Construction Company

Iowa Pipeline Associates, Inc.

Combined Statements of Financial Position

December 31, 2003 and 2002

(in thousands of dollars)		2003		2002
Assets				
Current assets				
Cash	$	28	$	39
Accounts receivables (net of allowance for doubtful accounts of $66 and $10)		9,049		11,188
Accounts receivables - related party		884		869
Costs in excess of billings and estimated earnings on uncompleted contracts		82		657
Prepaid expenses		5,840		5,390
Other		598		23
Total current assets		16,481		18,166
Property, plant and equipment at original cost		40,761		41,459
Less accumulated depreciation		24,345		18,259
Net property and equipment		16,416		23,200
Other Assets				
Goodwill				6,044
Other		134		158
Total other assets		134		6,202
Total assets	$	33,031	$	47,568
Liabilities and Shareholder s Equity				
Current liabilities				
Accounts payable - related party	$	23,982	$	24,764
Current portion of long-term debt		56		127
Accounts payable		1,610		1,465
Deferred income taxes		14		11
Billings in excess of costs and estimated earnings on uncompleted contracts				620
Other		823		1,244
Total current liabilities		26,485		28,231
Other liabilities				
Deferred income taxes		2,691		2,533
Long-term debt, net of current portion		9		30
Total other liabilities		2,700		2,563
Commitments and contingencies (Note 4)				
Shareholder s equity (Note 6)		3,846		16,774
Total liabilities and shareholder s equity	$	33,031	$	47,568

The accompanying notes to combined financial statements are an integral part of these statements.

Sub-Surface Construction Co.

Flint Construction Company

Iowa Pipeline Associates, Inc.

Combined Statements of Operations

December 31, 2003, 2002 and 2001

(in thousands of dollars)	**2003**	**2002**	**2001**
Operating revenues			
Construction services	$ 65,177	$ 92,517	$ 94,364
Construction services - related party	11,084	11,899	12,986
Total operating revenues	76,261	104,416	107,350
Operating expenses			
Cost of revenues earned	66,950	90,178	90,735
General and administrative	11,441	11,982	11,906
Depreciation and amortization	6,083	6,204	5,827
Goodwill impairment charge	6,044		
Asset impairment charge	1,621	728	
Total operating expenses	92,139	109,092	108,468
Operating loss	(15,878)	(4,676)	(1,118)
Other income (expenses)			
Interest expense	(1,031)	(1,006)	(1,268)
Other	149	(116)	(32)
	(882)	(1,122)	(1,300)
Loss before income taxes and cumulative effect of change in accounting principle	(16,760)	(5,798)	(2,418)
Income tax benefit	(3,832)	(1,886)	(499)
Loss before cumulative effect of change in accounting principle	(12,928)	(3,912)	(1,919)
Cumulative effect of change in accounting principle, net of income tax benefit of $0, $2,081 and $0 (Note 1)		(7,550)	
Net loss	**$ (12,928)**	**$ (11,462)**	**$ (1,919)**

The accompanying notes to combined financial statements are an integral part of these statements.

Sub-Surface Construction Co.

Flint Construction Company

Iowa Pipeline Associates, Inc.

Combined Statements of Cash Flows

December 31, 2003, 2002 and 2001

(in thousands of dollars)	2003	2002	2001
Cash flows provided by (used in) operating activities			
Net loss	$ (12,928)	$ (11,462)	$ (1,919)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	6,083	6,204	5,827
Deferred income tax expense (benefit)	161	(1,571)	1,300
Non-cash goodwill and asset impairment charges	7,665	728	
Cumulative effect of change in accounting principle		9,631	
Net (gain) loss on property sales	(6)	11	225
Changes in operating assets and liabilities:			
Accounts receivables	2,139	2,505	(83)
Accounts receivables - related party	(15)	(869)	
Costs in excess of billings and estimated earnings	575	(134)	(373)
Prepaid expenses	(450)	(5,296)	1,316
Other current assets	(575)	(19)	(4)
Other assets	24	11	(167)
Account payable - related party	(782)	2,538	6,233
Accounts payable	145	(791)	(1,093)
Billings in excess of costs and estimated earnings	(620)	417	120
Other current liabilities	(531)	(455)	(275)
Net cash provided by operating activities	885	1,448	11,107
Cash flows provided by (used in) investing activities			
Property additions	(1,810)	(2,366)	(11,474)
Proceeds from property sales	896	765	327
Net cash used in investing activities	(914)	(1,601)	(11,147)
Cash flows provided by (used in) financing activities			
Repayment of debt	(92)	(337)	(79)
Proceeds from other debt			211
Book overdrafts	110	434	
Net cash provided by (used in) financing activities	18	97	132
Cash			
Net increase (decrease)	(11)	(56)	92
Beginning of period	39	95	3
End of period	$ 28	$ 39	$ 95

The accompanying notes to combined financial statements are an integral part of these statements.

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Sub-Surface Construction Co.

Flint Construction Company

Iowa Pipeline Associates, Inc.

Notes to Combined Financial Statements (in thousands of dollars)

1. Summary of Significant Accounting Policies

Nature of Operations

These combined financial statements represent the operations of Sub-Surface Construction Co., Iowa Pipeline Associates, Inc., and Flint Construction Company (collectively referred to as the Companies). On September 3, 2004, the Companies were acquired by InfraSource Services, Inc. Each of these companies is incorporated in the state of Michigan and, prior to their acquisition by InfraSource Services, Inc., were indirect wholly owned subsidiaries of SEMCO Energy, Inc (SEMCO). Sub-Surface Construction Co. and Iowa Pipeline Associates, Inc. are contractors specializing in natural gas distribution construction and their primary markets are in the Midwest United States. Flint Construction Company is a contractor specializing in construction services to the natural gas industry and its primary markets are in the Southern and Southeastern regions of the United States.

Basis of Presentation

These combined financial statements were prepared in conformity with accounting principles generally accepted in the United States of America. The financial statements of the Companies are presented on a combined basis, as these Companies were under the common control of SEMCO during the periods presented in these combined financial statements. In addition, there were no inter-company transactions between the Companies for the periods presented in these combined financial statements. In connection with the preparation of the financial statements, management was required 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. All dollar amounts are presented in thousands.

Financial Instruments

For cash, notes receivable, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair values because of the short maturity of these instruments.

Prepaid Expenses

Prepaid expenses consist primarily of insurance premiums paid.

Goodwill and Goodwill Impairment

On January 1, 2002, the Companies adopted Statement of Financial Accounting Standards (SFAS) 141, Business Combinations and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 addresses financial accounting and reporting for all business combinations and requires that all business combinations entered into subsequent to June 30, 2001 be recorded under the purchase method. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition.

In compliance with SFAS 142, goodwill amortization ceased effective January 1, 2002. Prior to January 1, 2002, goodwill was being amortized on a straight-line basis over a period of 40 years. Goodwill amortization expense was $393 in 2001. The following table presents what would have been reported as net income (loss) in 2003, 2002 and 2001, exclusive of amortization expense (including any related tax effects) related to goodwill.

Years ended December 31,		**2003**		**2002**		**2001**
Reported net loss	$	(12,928)	$	(11,462)	$	(1,919)
Add back goodwill amortization, net of income taxes						256
Adjusted net loss	$	(12,928)	$	(11,462)	$	(1,663)

SFAS 142 also required that companies complete a transition impairment test in the year of adoption and perform subsequent impairment tests on the remaining goodwill balance annually or at any time when events occur which could impact the value of a business. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the Combined Statements of Operations.

The transition impairment test was performed as of January 1, 2002 and indicated that $9,631 of the Companies goodwill related to Sub-Surface Construction Co. and Iowa Pipeline Associates, Inc. was impaired. In accordance with SFAS 142, the impairment loss, net of income taxes, is reflected in the Companies Statement of Operations for the year 2002 as a cumulative effect of a change in accounting principle. In 2003, an impairment test was performed and it was determined that all of the Companies remaining goodwill related to Flint Construction Company was impaired. This impairment loss of $6,044 is reflected in the Companies Combined Statement of Operations for 2003 in operating expenses.

The following table summarizes changes in the carrying amount of goodwill for the past two years.

Balance as of December 31, 2001	$	15,675
Impairment charge January 1, 2002		(9,631)
Balance as of December 31, 2002	$	6,044
Impairment charge 2003		(6,044)
Balance as of December 31, 2003	**$**	

Property, Plant and Equipment

The Companies property, plant and equipment (property) is recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	39 years
Leasehold Improvements	2-10 years
Machinery and Equipment	5-10 years
Autos and Trucks	5 years
Furniture and Fixtures	7 years
Computers & related equipment	5 years

	2003	**2002**
Property, Plant & Equipment		
Land	$ 79	$ 79
Buildings	242	302
Leasehold improvements	414	344
Machinery and equipment	25,205	26,152
Trailers	1,907	1,076
Passenger autos and rolling stock	12,324	13,009
Furniture & Fixtures	346	459
Computers	244	36
Other property		2
Gross Property Plant & Equipment	$ 40,761	$ 41,459
Less accumulated depreciation	24,345	18,259
Net Property Plant & Equipment	$ 16,416	$ 23,200

Depreciation expense was $6,083, $6,204 and $5,434 in 2003, 2002 and 2001, respectively.

On January 1, 2002 the Companies adopted SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 requires the cost of long-lived assets be tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The carrying amount of long-lived assets may not be recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the assets. In that circumstance, an impairment loss would be recognized to the extent that the carrying amount of the long-lived assets exceeds the fair value of such assets.

During 2002 and 2003, impairment testing performed on the Companies long-lived assets indicated that there was a $728 and $1,621 impairment loss, respectively, for these periods. The long-lived assets were valued using a held and used model prescribed in SFAS 144. The impairment charges are included in operating expenses in the Companies Combined Statement of Operations for the years 2003 and 2002.

Revenue Recognition

The Companies recognize revenues as services are rendered. In instances when projects are long-term, the Companies utilize the percentage of completion method of accounting. Revenues and costs recognized on uncompleted contracts are measured by the percentage of costs incurred to date to total estimated costs for each contract. Under this method, revenue is recognized throughout the contract period and is not deferred until completion of the contract.

Contract costs include all direct material and labor costs and those indirect costs relating to contract performance such as equipment rental and other costs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to cost and income, which are recognized in the period in which the revisions are determined.

The asset, cost and estimated earnings in excess of billings on uncompleted contracts, represents revenue recognized in excess of amounts billed. The liability, billings in excess of cost and estimated earnings on uncompleted contracts, represents billings in excess of revenues recognized.

Revenue Recognition Uncompleted Contracts

Revenue Recognition Uncompleted Contracts

Years Ending		**2003**		**2002**
Cost, estimated earnings, and billings on uncompleted contracts are summarized as follows:				
Cost incurred on uncompleted contracts	$	96	$	1,242
Estimated earnings		26		158
		122		1,400
Billings to date		40		1,363
	$	82	$	37
Included in the accompanying balance sheet under the following captions:				
Cost and estimated earnings in excess of billings on uncompleted contracts	$	82	$	657
Billings in excess of cost and estimated earnings on uncompleted contracts				(620)
	$	82	$	37

Accounts Receivables

Trade accounts receivables are recorded at the billed amount and do not bear interest. Trade accounts receivables include retainage balances due from customers of $486 and $2,454 at December 31, 2003 and 2002, respectively. Allowance for doubtful accounts is based on a specific identification method. We review allowance for doubtful accounts monthly. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered. Bad debt expense was $96, $378 and $60 in 2003, 2002 and 2001, respectively. The Company does not have any off-balance-sheet credit exposure related to its customers.

Major Customers

A significant portion of the Companies revenue was derived from five customers in 2003 and 2002 and four customers in 2001. SEMCO was one of these customers for each of these years. These customers, excluding SEMCO, accounted for approximately 60%, 63% and 50% of the Companies revenue for the years 2003, 2002 and 2001, respectively.

At December 31, 2003 and 2002, accounts receivable due from non-affiliate customers totaled $5,692 and $7,165, respectively. See Note 2 for revenue and accounts receivable from affiliates.

Income Taxes

The Companies are included in SEMCO s consolidated federal income tax return and income tax expense or benefit is allocated to the Companies based upon their separate taxable income or loss. SEMCO pays or collects any income tax expense or benefit allocated to the Companies. As a result, all such amounts are reflected in accounts payable related party, and the Companies did not pay or receive cash for income taxes for the years ended December 31, 2003, 2002, or 2001.

Retirement plan

The Companies participate in a defined contribution plan, commonly referred to as a 401(k) plan, available to all non-union employees. The Plan contains provisions for discretionary Company matching contributions. There were not any discretionary contributions for the years 2003, 2002 or 2001.

Stock-Based Compensation.

The Companies account for all stock options using the intrinsic value method provided for under the provisions and related interpretations of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). In accordance with SFAS 123, Accounting for Stock-Based Compensation, The Companies have chosen to account for these transactions under APB 25 for purposes of determining net income but must present the pro forma disclosures required by SFAS 123 as amended by SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure. Under the intrinsic value method, there was no compensation expense associated with stock options for the years ended December 31, 2003, 2002 and 2001. If compensation expense had been determined in a manner consistent with the provisions of SFAS 123, the Companies net loss would have been increased to the pro forma amounts indicated in the table below.

Years Ended December 31,		**2003**		**2002**		**2001**
Net loss						
As reported	$	(12,928)	$	(11,462)	$	(1,919)
Deduct total stock-based employee Compensation expense determined under fair value based method for all awards, net of related tax effects		168		147		72
Pro forma	$	(13,096)	$	(11,609)	$	(1,991)

Supplemental Disclosure of Cash Flow Information

All income taxes are paid by SEMCO, and accordingly, the Companies made no income tax payments for the years ended December 31, 2003, 2002, and 2001. Interest payable on advances from SEMCO is added to accounts payable related party. As a result, the Companies did not make any specific cash payments for interest for the years ended December 31, 2003, 2002 and 2001.

2. Related Party Transactions

The Companies are indirect wholly owned subsidiaries of SEMCO. SEMCO has advanced funds for working capital and capital expenditures during 2003, 2002 and 2001. Interest is assessed on the outstanding balance of the advances by SEMCO on a monthly basis at a variable rate of interest, which is based on a one month LIBOR plus the applicable margin on SEMCO s short-term bank credit facility. At December 31, 2003, 2002 and 2001, the variable rate was 3.84%, 3.41% and 3.31%, respectively. Transactions between the Companies and SEMCO are as follows:

	2003	2002
Accounts receivable related party	$ 884	$ 869
Accounts payable related party	23,982	24,764

	2003	2002	2001
Revenue from services provided to SEMCO	$ 11,084	$ 11,899	$ 12,986
Interest expense incurred on amounts due SEMCO	1,003	979	1,243
Expenses for professional services provided by SEMCO	2,403	2,713	2,975

Professional services provided by SEMCO to the Companies include services such as legal, accounting, finance, treasury, human resources and information technology.

Flint Construction Company leases office space and storage yard facilities from Good and Fuller, LLC, an entity owned by the President and Vice President of Flint Construction Company. The lease for this office space expires August 26, 2004. Amounts paid under the lease agreement during the audit periods are:

2003	$	160
2002		