

INTEGRATED ELECTRICAL SERVICES INC

Form 10-Q

August 09, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2010

OR

**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 1-13783

Integrated Electrical Services, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

76-0542208

(I.R.S. Employer
Identification No.)

1800 West Loop South, Suite 500, Houston, Texas 77027

(Address of principal executive offices and ZIP code)

Registrant's telephone number, including area code: (713) 860-1500

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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 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

Smaller reporting
company

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

The number of shares outstanding as of August 6, 2010 of the issuer's common stock was 14,565,005.

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DEFINITIONS

In this quarterly report on Form 10-Q, the words IES , the Company , we , our , ours , and us refer to Integrated Services, Inc. and, except as otherwise specified herein, to our subsidiaries.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q includes certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, all of which are based upon various estimates and assumptions that the Company believes to be reasonable as of the date hereof. These statements involve risks and uncertainties that could cause our actual results to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

- fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;
- competition in the construction industry, both from third parties and former employees, which could result in the loss of one or more customers or lead to lower margins on new contracts;
- a general reduction in the demand for our services;
- a change in the mix of our customers, contracts and business;
- our ability to successfully manage construction projects;
- possibility of errors when estimating revenue and progress to date on percentage-of-completion contracts;
- inaccurate estimates used when entering into fixed-priced contracts;
- challenges integrating new types of work or new processes into our divisions;
- the cost and availability of qualified labor, especially electricians and construction supervisors;
- accidents resulting from the physical hazards associated with our work and the potential for vehicle accidents;
- success in transferring, renewing and obtaining electrical and construction licenses;
- our ability to pass along increases in the cost of commodities used in our business, in particular, copper, aluminum, steel, fuel and certain plastics;
- potential supply chain disruptions due to credit or liquidity problems faced by our suppliers;
- loss of key personnel and effective transition of new management;
- warranty losses or other latent defect claims in excess of our existing reserves and accruals;
- warranty losses or other unexpected liabilities stemming from former divisions which we have sold or closed;
- growth in latent defect litigation in states where we provide residential electrical work for home builders not otherwise covered by insurance;
- limitations on the availability of sufficient credit or cash flow to fund our working capital needs;
- difficulty in fulfilling the covenant terms of our credit facilities;
- increased cost of surety bonds affecting margins on work and the potential for our surety providers to refuse bonding at their discretion;

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increases in bad debt expense and days sales outstanding due to liquidity problems faced by our customers;
changes in the assumptions made regarding future events used to value our stock options and performance-based stock awards;
the recognition of potential goodwill, fixed asset and other investment impairments;
uncertainties inherent in estimating future operating results, including revenues, operating income or cash flow;
disagreements with taxing authorities with regard to tax positions we have adopted;
the recognition of tax benefits related to uncertain tax positions;
complications associated with the incorporation of new accounting, control and operating procedures;
the financial impact of new or proposed accounting regulations;
the ability of our controlling shareholder to take action not aligned with other shareholders;
the possibility that certain of our net operating losses may be restricted or reduced in a change in ownership;
credit and capital market conditions, including changes in interest rates that affect the cost of construction financing and mortgages, and the inability for some of our customers to retain sufficient financing which could lead to project delays or cancellations; and
the sale or disposition of the shares of our common stock held by our majority shareholder, which, under certain circumstances, would trigger change of control provisions in contracts such as employment agreements, supply agreements, and financing and surety arrangements.

You should understand that the foregoing, as well as other risk factors discussed in our annual report on Form 10-K for the year ended September 30, 2009, could cause future outcomes to differ materially from those experienced previously or from those expressed in this quarterly report and our aforementioned annual report on Form 10-K. We undertake no obligation to publicly update or revise information concerning our restructuring efforts, borrowing availability, cash position or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this quarterly report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties, and risks described herein.

General information about us can be found at www.ies-co.com under Investor Relations. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the Securities and Exchange Commission. You may also contact our Investor Relations department at 713-860-1500, and they will provide you with copies of our public reports.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	June 30, 2010 (Unaudited)	September 30, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30,725	\$ 64,174
Accounts receivable:		
Trade, net of allowance of \$3,549 and \$3,296, respectively	85,963	100,753
Retainage	17,608	26,516
Inventories	9,831	10,155
Costs and estimated earnings in excess of billings on uncompleted contracts	12,588	13,554
Prepaid expenses and other current assets	5,903	6,118
Total current assets	162,618	221,270
LONG-TERM RECEIVABLE, net of allowance of \$3,992 and \$278, respectively	312	3,714
PROPERTY AND EQUIPMENT, net	20,808	24,367
GOODWILL	3,981	3,981
OTHER NON-CURRENT ASSETS, net	13,507	15,093
Total assets	\$ 201,226	\$ 268,425
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 1,266	\$ 2,086
Accounts payable and accrued expenses	56,410	76,478
Billings in excess of costs and estimated earnings on uncompleted contracts	11,402	21,142
Total current liabilities	69,078	99,706
LONG-TERM DEBT, net of current maturities	10,632	26,601
LONG-TERM DEFERRED TAX LIABILITY	2,290	2,290
OTHER NON-CURRENT LIABILITIES	6,385	7,280
Total liabilities	88,385	135,877
STOCKHOLDERS EQUITY:		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued and outstanding		
Common stock, \$0.01 par value, 100,000,000 shares authorized; 15,407,802 shares issued and 14,565,005 and 14,617,741 outstanding, respectively	154	154
Treasury stock, at cost, 842,797 and 790,061 shares, respectively	(14,411)	(14,097)
Additional paid-in capital	171,944	170,732
Accumulated other comprehensive income	(82)	(70)

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Retained deficit	(44,764)	(24,171)
Total stockholders' equity	112,841	132,548
Total liabilities and stockholders' equity	\$ 201,226	\$ 268,425

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)

	Three Months Ended June 30, 2010 (Unaudited)	Three Months Ended June 30, 2009 (Unaudited)
Revenues	\$ 121,405	\$ 172,185
Cost of services	106,328	140,563
Gross profit	15,077	31,622
Selling, general and administrative expenses	21,098	26,838
Gain on sale of assets	(113)	(221)
Restructuring charges		633
Income (loss) from operations	(5,908)	4,372
Interest and other (income) expense:		
Interest expense	784	1,325
Interest income	(92)	(67)
Other (income) expense, net	55	276
Interest and other expense, net	747	1,534
Income (loss) from operations before income taxes	(6,655)	2,838
Provision (benefit) for income taxes	(98)	1,541
Net income (loss)	\$ (6,557)	\$ 1,297
Income (loss) per share		
Basic	\$ (0.45)	\$ 0.09
Diluted	\$ (0.45)	\$ 0.09
Shares used in the computation of loss per share (Note 4):		
Basic	14,425,119	14,339,066
Diluted	14,425,119	14,403,139

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)

	Nine Months Ended June 30, 2010 (Unaudited)	Nine Months Ended June 30, 2009 (Unaudited)
Revenues	\$ 349,272	\$ 512,618
Cost of services	300,675	423,095
Gross profit	48,597	89,523
Selling, general and administrative expenses	66,075	82,668
Gain on sale of assets	(165)	(399)
Restructuring charges	763	3,774
Income (loss) from operations	(18,076)	3,480
Interest and other (income) expense:		
Interest expense	2,869	3,415
Interest income	(208)	(340)
Other income, net	(172)	(197)
Interest and other expense, net	2,489	2,878
Income (loss) from operations before income taxes	(20,565)	602
Provision (benefit) for income taxes	28	613
Net loss	\$ (20,593)	\$ (11)
Loss per share		
Basic	\$ (1.43)	\$ (0.00)
Diluted	\$ (1.43)	\$ (0.00)
Shares used in the computation of loss per share (Note 4):		
Basic	14,403,925	14,326,747
Diluted	14,403,925	14,326,747

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Nine Months Ended June 30, 2010 (Unaudited)	Nine Months Ended June 30, 2009 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (20,593)	\$ (11)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net loss from discontinued operations		(61)
Bad debt expense	6,686	1,295
Deferred financing cost amortization	223	191
Depreciation and amortization	4,014	6,237
Gain on sale of assets	(165)	(399)
Non-cash compensation expense	1,071	1,745
Paid in kind interest		678
Equity in (gains) losses of investment		33
Goodwill adjustment utilization of deferred tax assets		65
Changes in operating assets and liabilities		
Accounts receivable	20,726	6,325
Inventories	324	2,782
Costs and estimated earnings in excess of billings	966	(1,007)
Prepaid expenses and other current assets	1,044	(123)
Other non-current assets	41	5,535
Accounts payable and accrued expenses	(20,068)	(19,945)
Billings in excess of costs and estimated earnings	(9,740)	695
Other non-current liabilities	(895)	1,538
Net cash provided by (used in) continuing operations	(16,366)	5,573
Net cash provided by discontinued operations		1,327
Net cash provided by (used in) operating activities	(16,366)	6,900
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(536)	(4,054)
Proceeds from sales of property and equipment	246	226
Investment in unconsolidated affiliates		(2,150)
Distribution from unconsolidated affiliates	393	
Net cash provided by (used in) investing activities	103	(5,978)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt	753	1,055
Repayments of debt	(17,542)	(1,841)
Purchase of treasury stock	(172)	(4,301)
Payments for debt issuance costs	(225)	

Net cash used in financing activities	(17,186)	(5,087)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(33,449)	(4,165)
CASH AND CASH EQUIVALENTS, beginning of period	64,174	64,709
CASH AND CASH EQUIVALENTS, end of period	\$ 30,725	\$ 60,544
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 3,334	\$ 2,370
Cash paid for income taxes	\$ 284	\$ 779

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(UNAUDITED)

1. BUSINESS

Integrated Electrical Services, Inc., a Delaware corporation, was founded in June 1997 to establish a leading national provider of electrical services, focusing primarily on the commercial, industrial, residential, low voltage and service and maintenance markets. We provide a broad range of services, including designing, building, maintaining and servicing electrical, data communications and utilities systems for commercial, industrial and residential customers. The words IES, the Company, we, our, and us refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our wholly-owned subsidiaries.

Our electrical contracting services include design of electrical systems within a building or complex, procurement and installation of wiring and connection to power sources, end-use equipment and fixtures, as well as contract maintenance. We service commercial, industrial and residential markets and have a diverse customer base, including: general contractors; property managers and developers; corporations; government agencies; municipalities; and homeowners. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house experts, or projects which require specific market expertise, such as hospitals or power generation facilities. We also focus on service, maintenance and certain renovation and upgrade work, which tends to be either recurring or have lower sensitivity to economic cycles, or both. We provide services for a variety of projects, including: high-rise residential and office buildings, power plants, manufacturing facilities, data centers, chemical plants, refineries, wind farms, solar facilities, municipal infrastructure and health care facilities and residential developments, including both single-family housing and multi-family apartment complexes. We also offer low voltage contracting services as a complement to our electrical contracting business. Our low voltage services include design and installation of structured cabling for corporations, universities, data centers and switching stations for data communications companies as well as the installation of fire and security alarm systems. Our utility services consist of overhead and underground installation and maintenance of electrical and other utilities transmission and distribution networks, installation and splicing of high-voltage transmission and distribution lines, substation construction and substation and right-of-way maintenance. Our maintenance services generally provide recurring revenues that are typically less affected by levels of construction activity.

CONTROLLING SHAREHOLDER

At June 30, 2010, Tontine Capital Partners, L.P. together with its affiliates (Tontine), was the controlling shareholder of the Company's common stock. Accordingly, Tontine has the ability to exercise significant control of our affairs, including the election of directors and any action requiring the approval of shareholders, including the approval of any potential merger or sale of all or substantially all assets or divisions of the Company, or the Company itself. In its most recent Schedule 13D, Tontine stated that it has no current plans to make any material change in the Company's business or corporate structure. For a more complete discussion on our relationship with Tontine, please refer to Note 11, Controlling Shareholder to these Condensed Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the financial position as of, and the results of operations for, the periods presented. All adjustments are considered to be normal and recurring unless otherwise described herein. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. During interim periods, we follow the same accounting policies disclosed in our annual report on Form 10-K for the year ended September 30, 2009, with the exception of the adoption of the new Financial Accounting Standards Board (FASB) standard on business combinations and amended fair value disclosure requirements as described below. Please refer to the *Notes to Consolidated Financial Statements* in our annual report on Form 10-K for the year ended September 30, 2009, when reviewing our interim financial results set forth herein.

In December 2007, the FASB issued updated standards on business combinations and accounting and reporting of non-controlling interests in consolidated financial statements. The changes require an acquiring entity to recognize all

the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. The updated standards eliminate the step acquisition model, change the recognition of contingent consideration from being recognized when it is probable to being recognized at the time of acquisition, disallow the capitalization of transaction costs, and change when restructuring charges related to acquisitions can be recognized. The new standards became effective for us on October 1, 2009. The implementation of the updated standards on business combinations did not effect the provision for the quarter ended June 30, 2010.

In January 2010, the FASB issued updated standards on fair value, which clarifies disclosure requirements around fair value

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measurement. This update requires additional disclosure surrounding the activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, the update requires enhanced disclosure of the valuation techniques and inputs used in the fair value measurements within Level 2 and Level 3. The new disclosure requirements became effective for us on January 1, 2010. As the update requires only enhanced disclosures, its adoption did not have a material impact on the consolidated financial statements.

RECLASSIFICATIONS

In connection with the change in reportable segments, certain prior period amounts have been reclassified to conform to the current year presentation of our segments with no effect on net income (loss) or retained deficit. Specifically, the former Industrial segment has been combined with the Commercial segment to form our Commercial & Industrial segment. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 5, *Operating Segments* of this report.

We have completed the wind down of our discontinued operations. All substantive assets have been sold or transferred and liabilities have been retired. There is no longer any operating activity or material outstanding balances. We have classified the remaining balances as continuing operations.

LONG-TERM RECEIVABLE

In March 2009, in connection with a construction project entering bankruptcy, we transferred \$4.0 million of trade accounts receivable to long-term receivable and initiated breach of contract and mechanics lien foreclosure actions against the project's general contractor and owner, respectively. At the same time, we reserved the costs in excess of billings of \$0.3 million associated with this receivable.

In March 2010, we reserved the remaining balance of \$3.7 million. We will continue to monitor the proceedings and evaluate any potential future collectability. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 10, *Commitments and Contingencies - Legal Matters* of this report.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, investments, accounts payable, a line of credit, notes payable issued to finance insurance policies, and the Tontine Term Loan. We believe that the carrying value of financial instruments, with the exception of the Tontine Term Loan in the accompanying consolidated balance sheets, approximates their fair value due to their short-term nature.

We estimate that the fair value of the Tontine Term Loan is \$11.1 million based on comparable debt instruments at June 30, 2010. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 3, *Debt and Liquidity - The Tontine Capital Partners Term Loan* of this report.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent 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. Estimates are primarily used in our revenue recognition of construction in progress, fair value assumptions in analyzing goodwill, investments, intangible assets and long-lived asset impairments and adjustments, allowance for doubtful accounts receivable, stock-based compensation, reserves for legal matters, assumptions regarding estimated costs to exit certain divisions, realizability of deferred tax assets, and self-insured claims liabilities and related reserves.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Results of operations from our Residential construction segment are more seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. The Commercial & Industrial segment of our business is less subject to seasonal trends, as this work generally is performed inside structures protected from the weather. Our service and maintenance business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national

economic conditions. Quarterly results may also be materially affected by the timing of new construction projects. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

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In the first quarter of our 2009 fiscal year, we began a new restructuring program (the 2009 Restructuring Plan) that was designed to consolidate operations within our three segments. The 2009 Restructuring Plan was the next level of our business optimization strategy. Our plan was to streamline local project and support operations, which were managed through regional operating centers, and to capitalize on the investments we had made over the past year to further leverage our resources. We accelerated our trade name amortization during the 2009 fiscal year recording a charge of \$1.6 million that has been identified within the Restructuring Charges caption in our consolidated statements of operations.

During the three months ended June 30, 2010 and 2009, respectively, we incurred pre-tax restructuring charges, including severance benefits and facility consolidations and closings, of zero and \$0.6 million associated with the 2009 Restructuring Plan. Costs incurred related to our Commercial & Industrial segment were zero and \$0.4 million for the three months ended June 30, 2010 and 2009, respectively. Costs incurred related to our Residential segment were zero and \$0.3 million for the three months ended June 30, 2010 and 2009, respectively. Costs related to our Corporate office were zero and \$(0.1) for the three months ended June 30, 2010 and 2009, respectively.

During the nine months ended June 30, 2010 and 2009, respectively, we incurred pre-tax restructuring charges, including severance benefits and facility consolidations and closings, of \$0.8 million and \$3.8 million associated with the 2009 Restructuring Plan. Costs incurred related to our Commercial & Industrial segment were \$0.7 million and \$1.1 million for the nine months ended June 30, 2010 and 2009, respectively. Costs incurred related to our Residential segment were zero and \$2.0 million for the nine months ended June 30, 2010 and 2009, respectively. Costs incurred related to our Corporate office were \$0.1 million and \$0.7 million for the nine months ended June 30, 2010 and 2009, respectively.

In addition, as a result of the continuing significant effects of the recession, during the third quarter of fiscal year 2009, we implemented a more expansive cost reduction program, by further reducing administrative personnel, primarily in the corporate office, and consolidating our Commercial and Industrial administrative functions into one service center. As a result of the expanded 2009 Restructuring Plan, we now manage and measure performance of our business in two distinct operating segments: Commercial & Industrial and Residential. As part of this expanded 2009 Restructuring Plan, we do not expect to exceed \$0.5 million in additional pre-tax restructuring charges, including severance benefits and facility consolidations and closings over the remainder of our current fiscal year.

The following table summarizes the activities related to our restructuring activities by component (in thousands):

	Severance Charges	Consulting/ Other Charges	Total
Restructuring liability at September 30, 2009	\$ 2,097	\$ 81	\$ 2,178
Restructuring charges incurred	763		763
Cash payments made	(2,723)	(81)	(2,804)
Restructuring liability at June 30, 2010	\$ 137	\$	\$ 137

3. DEBT AND LIQUIDITY

Debt consists of the following (in thousands):

	June 30, 2010	September 30, 2009
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	\$ 10,000	\$ 25,000
Insurance Financing Agreements	1,233	2,912
Capital leases and other	665	775

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Total debt	11,898	28,687
Less Short-term debt and current maturities of long-term debt	(1,266)	(2,086)
Total long-term debt	\$ 10,632	\$ 26,601

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Future payments on debt at June 30, 2010 are as follows (in thousands):

	Capital Leases	Term Debt	Total
2010	\$ 93	\$ 417	\$ 510
2011	306	816	1,122
2012	297		297
2013	287	10,000	10,287
2014	24		24
Thereafter			
Less: Imputed Interest	(342)		(342)
Total	\$ 665	\$ 11,233	\$ 11,898

For the three months ended June 30, 2010 and 2009, we incurred interest expense of \$0.8 million and \$1.3 million, respectively. For the nine months ended June 30, 2010 and 2009, we incurred interest expense of \$2.9 million and \$3.4 million, respectively.

The Tontine Term Loan

On December 12, 2007, we entered into a \$25.0 million senior subordinated loan agreement (the "Tontine Term Loan") with Tontine Capital Partners, L.P., a related party. The Tontine Term Loan bears interest at 11.0% per annum and is due on May 15, 2013. Interest is payable quarterly in cash or in-kind at our option. Any interest paid in-kind will bear interest at 11.0% in addition to the loan principal. On April 30, 2010, we prepaid \$15.0 million of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to TCP Overseas Master Fund II, L.P., ("TCP 2"). We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty. The Tontine Term Loan is subordinated to our existing Revolving Credit Facility (defined below) with Bank of America, N.A. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers. The Tontine Term Loan contains no financial covenants or restrictions on dividends or distributions to stockholders.

Insurance Financing Agreements

From time to time, we elect to finance our commercial insurance policy premiums over a term equal to or less than the term of the policy ("Insurance Financing Agreements"). We previously referred to these financing arrangements as the Camden Notes.

Insurance Financing Agreements consist of the following (in thousands):

	June 30, 2010	September 30, 2009
Insurance Note Payable, due September 1, 2010, bearing interest at 4.99%	\$ 147	\$
Insurance Note Payable, due June 1, 2010, bearing interest at 4.59%		719
Insurance Note Payable, due August 1, 2011, bearing interest at 4.99%	977	1,986
Insurance Note Payable, due November 1, 2010, bearing interest at 4.99%	109	
Insurance Note Payable, due January 1, 2010, bearing interest at 5.99%		207
Total Insurance Financing Agreements	\$ 1,233	\$ 2,912

On October 1, 2009, we financed an insurance policy in the initial principal amount of \$0.5 million with First Insurance Funding Corp. ("First Insurance Funding"), which matures on September 1, 2010. Under the terms of this

note, we are to make eleven equal monthly payments of \$49,319 (including principal and interest) beginning on November 1, 2009.

On December 15, 2009, we financed an insurance policy in the initial principal amount of \$0.2 million with First Insurance Funding, which matures on November 1, 2010. Under the terms of this note, we are to make ten equal monthly payments of \$22,037 (including principal and interest) beginning on January 1, 2010.

The Insurance Financing Agreements are collateralized by the gross unearned premiums on the respective insurance policies plus any payments for losses claimed under the policies.

Table of Contents*The Revolving Credit Facility*

On May 12, 2006, we entered into a Loan and Security Agreement (the "Loan and Security Agreement"), for a revolving credit facility (the "Revolving Credit Facility") with Bank of America, N.A. and certain other lenders. On May 7, 2008, we renegotiated the terms of our Revolving Credit Facility and entered into an amended agreement with the same financial institutions. The Loan and Security Agreement, as amended, provided us with access to a \$60.0 million Revolving Credit Facility. Borrowings under the Revolving Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventory. The Revolving Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries' existing and future acquired assets, exclusive of collateral provided to our surety providers. The Revolving Credit Facility contains customary affirmative, negative and financial covenants. The Revolving Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock.

On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement without incurring termination charges. Under the terms of the amended Revolving Credit Facility, the size of the facility remains at \$60.0 million, and the maturity date has been extended to May 12, 2012. In connection with the amendment, we incurred an amendment fee of \$0.2 million, which will be amortized over 24 months.

Under the terms of the Revolving Credit Facility in effect as of June 30, 2010, interest for loans and letter of credit fees is based on our Total Liquidity, which is calculated for any given period as the sum of average daily availability for such period plus average daily unrestricted cash on hand for such period as follows:

Total Liquidity	Annual Interest Rate for Loans	Annual Interest Rate for Letters of Credit
Greater than or equal to \$60 million	LIBOR plus 3.00% or Base Rate plus 1.00%	3.00% plus 0.25% fronting fee
Greater than \$40 million and less than \$60 million	LIBOR plus 3.25% or Base Rate plus 1.25%	3.25% plus 0.25% fronting fee
Less than or equal to \$40 million	LIBOR plus 3.50% or Base Rate plus 1.50%	3.50% plus 0.25% fronting fee

At June 30, 2010, we had \$7.9 million available to us under the Revolving Credit Facility, based on a borrowing base of \$28.6 million, \$20.7 million in outstanding letters of credit, and no outstanding borrowings.

At June 30, 2010, our Total Liquidity was \$40.3 million. For the nine months ended June 30, 2010, we paid no interest for loans under the Revolving Credit Facility and a weighted average interest rate, including fronting fees, of 3.5% for letters of credit. In addition, we are charged monthly in arrears (1) an unused commitment fee of 0.5%, and (2) certain other fees and charges as specified in the Loan and Security Agreement, as amended. Finally, the Revolving Credit Facility would have been subject to termination charges of 0.25% of the total borrowing capacity if such termination occurred on or after May 12, 2011 and \$50,000 anytime thereafter.

As of June 30, 2010, we were subject to the financial covenant under the Revolving Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability is less than \$25.0 million and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least \$25.0 million for a period of 60 consecutive days. As of June 30, 2010, our Total Liquidity was in excess of \$25.0 million. Had our Total Liquidity been less than \$25.0 million at June 30, 2010, we would not have met the 1.0:1.0 fixed charge coverage ratio test, had it been applicable.

As of June 30, 2009, we were subject to the financial covenant under the Revolving Credit Facility, requiring that we maintain the 1.0:1.0 fixed charge coverage ratio at any time that our aggregate amount of unrestricted cash on hand plus availability is less than \$50.0 million and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least \$50.0 million for a period of 60 consecutive days. As of June 30, 2009, our Total Liquidity was in excess of \$50.0 million.

In the event that we are not able to meet the financial covenant of our amended Revolving Credit Facility in the future and are unsuccessful in obtaining a waiver from our lenders, the Company expects to have adequate cash on hand to fully collateralize our outstanding letters of credit and to provide sufficient cash for ongoing operations.

4. EARNINGS PER SHARE

Our restricted shares granted under the 2006 Equity Incentive Plan participate in any dividends declared on our common stock.

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Accordingly, the restricted shares are considered participating securities under the two-class method, which is an earnings allocation formula that determines earnings for each class of common stock and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. Under the two-class method, net income is reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amounts of dividends that must be paid for the current period. The remaining earnings are then allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. Diluted earnings per share is calculated using the treasury stock and if converted methods for potential common stock. Basic earnings per share is calculated as income (loss) available to common stockholders, divided by the weighted average number of common shares outstanding during the period. If the effect is dilutive, participating securities are included in the computation of basic earnings per share. Our participating securities do not have a contractual obligation to share in the losses in any given period. As a result, these participating securities will not be allocated any losses in the periods of net losses, but will be allocated income in the periods of net income using the two-class method.

The tables that follow reconcile the components of the basic and diluted earnings per share for the three months and nine months ended June 30, 2010 and 2009 (in thousands, except per share and per share data):

	Three Months Ended June 30,	
	2010	2009
Numerator:		
Net income (loss) attributable to common shareholders	\$ (6,557)	\$ 1,272
Net income attributable to restricted shareholders		25
Net income (loss)	\$ (6,557)	\$ 1,297
Denominator:		
Weighted average common shares outstanding basic	14,425,119	14,339,066
Effect of dilutive stock options and non-vested restricted stock		64,073
Weighted average common and common equivalent shares outstanding diluted	14,425,119	14,403,139
Earnings (loss) per share		
Basic	\$ (0.45)	\$ 0.09
Diluted	\$ (0.45)	\$ 0.09
Nine Months Ended June 30,		
	2010	2009
Numerator:		
Net loss attributable to common shareholders	\$ (20,593)	\$ (11)
Net income attributable to restricted shareholders		
Net loss	\$ (20,593)	\$ (11)
Denominator:		

Weighted average common shares outstanding basic	14,403,925	14,326,747
Effect of dilutive stock options and non-vested restricted stock		
Weighted average common and common equivalent shares outstanding diluted	14,403,925	14,326,747
Loss per share		
Basic	\$ (1.43)	\$ (0.00)
Diluted	\$ (1.43)	\$ (0.00)

5. OPERATING SEGMENTS

As a result of our 2009 Restructuring Plan, on October 1, 2009, the Company implemented modifications to its system of reporting, resulting from changes to its internal organization, which changed its reportable segments. These changes to the internal organization included the realignment of our Industrial segment into our Commercial & Industrial segment. We now manage and measure performance of our business in two distinct operating segments: Commercial & Industrial and Residential. These segments are reflective of how the Company's Chief Operating Decision Maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The Company's CODM is its Chief Executive Officer. Prior period disclosures have been adjusted to reflect the change in reportable segments.

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The Commercial & Industrial segment provides electrical and communications design, installation, renovation, engineering and maintenance and replacement services in facilities such as office buildings, high-rise apartments and condominiums, theaters, restaurants, hotels, hospitals and critical-care facilities, school districts, light manufacturing and processing facilities, military installations, airports, outside plants, network enterprises, switch network customers, manufacturing and distribution centers, water treatment facilities, refineries, petrochemical and power plants, and alternative energy facilities. In addition to these services, our Commercial & Industrial segment also designs and assembles modular power distribution centers.

The Residential segment consists of electrical installation, replacement and renovation services in single-family, condominium, townhouse and low-rise multifamily housing units.

We also have a Corporate office that provides general and administrative as well as support services to our two operating segments.

The significant accounting policies of the segments are the same as those described in the summary of significant accounting policies, set forth in Note 2 to our Consolidated Financial Statements included in our annual report on Form 10-K for the year ended September 30, 2009. We evaluate performance based on income from operations of the respective business units prior to the allocation of Corporate office expenses.

As of October 1, 2009 we began allocating certain corporate selling, general and administrative costs across our segments as we believe this more accurately reflects the costs associated with operating each segment. We have reclassified our three months and nine months ended June 30, 2009 selling, general and administrative costs using the same methodology.

Segment information for continuing operations for the three months and nine months ended June 30, 2010 and 2009 is as follows (in thousands):

	Three Months Ended June 30, 2010 (Unaudited)			
	Commercial & Industrial Residential Corporate Total			
	Industrial	Residential	Corporate	Total
Revenues	\$ 89,916	\$ 31,489	\$	\$ 121,405
Cost of services	81,176	25,152		106,328
Gross profit	8,740	6,337		15,077
Selling, general and administrative	11,475	6,086	3,537	21,098
Loss (gain) on sale of assets	(68)	29	(74)	(113)
Restructuring charge				
Income (loss) from operations	\$ (2,667)	\$ 222	\$ (3,463)	\$ (5,908)
Other data:				
Depreciation and amortization expense	\$ 319	\$ 144	\$ 756	\$ 1,219
Capital expenditures	\$ 29	\$ 5	\$	\$ 34
Total assets	\$ 101,389	\$ 31,368	\$ 68,469	\$ 201,226

	Three Months Ended June 30, 2009 (Unaudited)			
	Commercial & Industrial Residential Corporate Total			
	Industrial	Residential	Corporate	Total
Revenues	\$ 134,451	\$ 37,734	\$	\$ 172,185
Cost of services	112,263	28,300		140,563

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Gross profit	22,188	9,434		31,622
Selling, general and administrative	14,443	8,042	4,353	26,838
Loss (gain) on sale of assets	(239)	15	3	(221)
Restructuring charge	438	260	(65)	633
Income (loss) from operations	\$ 7,546	\$ 1,117	\$ (4,291)	\$ 4,372

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	Three Months Ended June 30, 2009 (Unaudited)			
	Commercial & Industrial Residential Corporate Total			
Other data:				
Depreciation and amortization expense	\$ 632	\$ 432	\$ 475	\$ 1,539
Capital expenditures	\$ 1,225	\$ 73	\$ 1,453	\$ 2,751
Total assets	\$ 153,279	\$ 39,299	\$ 107,307	\$ 299,885

	Nine Months Ended June 30, 2010 (Unaudited)			
	Commercial & Industrial Residential Corporate Total			
Revenues	\$ 260,723	\$ 88,549	\$	\$ 349,272
Cost of services	231,567	69,108		300,675
Gross profit	29,156	19,441		48,597
Selling, general and administrative	36,001	18,635	11,439	66,075
Loss (gain) on sale of assets	(117)	26	(74)	(165)
Restructuring charge	714		49	763
Income (loss) from operations	\$ (7,442)	\$ 780	\$ (11,414)	\$ (18,076)
Other data:				
Depreciation and amortization expense	\$ 1,173	\$ 541	\$ 2,300	\$ 4,014
Capital expenditures	\$ 245	\$ 83	\$ 208	\$ 536

	Nine Months Ended June 30, 2009 (Unaudited)			
	Commercial & Industrial Residential Corporate Total			
Revenues	\$ 395,636	\$ 116,982	\$	\$ 512,618
Cost of services	333,563	89,532		423,095
Gross profit	62,073	27,450		89,523
Selling, general and administrative	44,121	25,703	12,844	82,668
Loss (gain) on sale of assets	(430)	29	2	(399)
Restructuring charge	1,125	1,981	668	3,774
Income (loss) from operations	\$ 17,257	\$ (263)	\$ (13,514)	\$ 3,480

Other data:				
Depreciation and amortization expense	\$ 1,473	\$ 1,885	\$ 2,635	\$ 5,993
Capital expenditures	\$ 1,621	\$ 338	\$ 2,095	\$ 4,054

We have no operations or long-lived assets in countries outside of the United States.

6. STOCKHOLDERS EQUITY

The 2006 Equity Incentive Plan (as amended, the 2006 Plan) became effective on May 12, 2006. The 2006 Plan provides for grants of both stock options and common stock, including restricted stock and performance-based restricted stock. We have approximately 1.1 million shares of common stock authorized for issuance under the 2006 Plan.

Treasury Stock

On December 12, 2007, we entered into an amendment to our Loan and Security Agreement. The amendment allowed us to implement a stock repurchase program for up to one million shares of our common stock over the following 24 months. On December 12, 2007, our Board of Directors authorized the repurchase of up to one million shares of our common stock. This share repurchase program was authorized through December 2009. As of the program's termination on December 31, 2009, we repurchased 886,360 shares of common stock at an average cost of \$16.24 per share.

During the nine months ended June 30, 2010, 12,886 shares of common stock were issued from treasury stock for a restricted stock grant.

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During the nine months ended June 30, 2010, we repurchased 27,622 shares of common stock from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Plan, and 38,000 unvested shares of restricted stock were forfeited by former employees and returned to treasury stock.

Restricted Stock

We granted 12,886 shares of restricted stock to an employee during the nine months ended June 30, 2010. These restricted shares were granted at \$5.82 per share. These shares will vest on December 15, 2010.

We granted 180,100 shares of restricted stock to our employees during the nine months ended June 30, 2009, of which 27,400 have been forfeited as of June 30, 2010. These restricted shares were granted at prices ranging from \$8.44 to \$12.31 per share with a weighted average price of \$8.60 per share under various vesting terms.

During the three months ended June 30, 2010 and 2009, we recognized \$0.1 million and \$0.4 million, respectively, in compensation expense related to these awards. During the nine months ended June 30, 2010 and 2009, we recognized \$1.0 million and \$1.3 million, respectively, in compensation expense related to these awards. As of June 30, 2010, the unamortized compensation cost related to outstanding unvested restricted stock was \$0.4 million. We expect to recognize \$0.1 million related to these awards during the remaining three months of our 2010 fiscal year, and \$0.3 million thereafter.

All the restricted shares granted under the 2006 Plan (vested or unvested) participate in dividends, if any, issued to common shareholders.

Phantom Stock Units

For the three months and nine months ended June 30, 2010, we recognized \$13 thousand and \$138 thousand, respectively, in compensation for Phantom Stock Units (PSU s) granted to the members of the Board of Directors in May 2010 and March 2010. These PSU s will be paid via unrestricted stock grants to each board member upon their departure.

Stock Options

Our determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, the risk-free rate of return, and actual and projected employee stock option exercise behaviors. The expected life of stock options is an input variable under the Black-Scholes option pricing model, but it is not considered under the binomial option pricing model that we utilize.

During the nine months ended June 30, 2010 and 2009, we granted no stock options.

During the three months ended June 30, 2010 and 2009, we recognized \$14 thousand and \$29 thousand, respectively, in compensation expense related to these previously granted stock options. During the nine months ended June 30, 2010 and 2009, we recognized \$0.1 million and \$0.4 million, respectively, in compensation expense related to these awards. As of June 30, 2010, the unamortized compensation cost related to outstanding unvested stock options was \$21 thousand. We expect to recognize \$5 thousand of equity based compensation expense related to these awards during the remaining three months of our 2010 fiscal year, and \$16 thousand thereafter.

The following table summarizes activity regarding our stock option and incentive compensation plans:

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2009	158,500	\$ 18.66
Options granted		
Exercised		
Expired		
Forfeited		
Outstanding, June 30, 2010	158,500	\$ 18.66
Exercisable, June 30, 2010	155,167	\$ 18.62

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The following table summarizes all options outstanding and exercisable at June 30, 2010:

Range of Exercise Prices	Outstanding	Remaining	Weighted-Average		Exercisable	Weighted-Average	
	as of	Contractual	Exercise	Exercise	as of	Exercise	Exercise
	June 30, 2010	Life	Price	Price	June 30, 2010	Price	Price
\$12.31 \$18.79	123,500	6.37	\$	17.02	123,500	\$	17.02
\$20.75 \$25.08	35,000	6.98		24.46	31,667		24.85
	158,500	6.50	\$	18.66	155,167	\$	18.62

Upon exercise of stock options, it is our policy to first issue shares from treasury stock, then to issue new shares. Unexercised options expire between July 2016 and January 2018.

7. SECURITIES AND EQUITY INVESTMENTS*Investment in EPV Solar*

Our investment in EPV Solar, Inc. (EPV) consists of the following debt and equity instruments (in thousands):

	June 30, 2010	September 30, 2009
Common stock (25.2 million shares)	\$	\$
Convertible note receivable	100	150
Stock warrants (0.5 million warrants / strike at \$1.25)		
Stock warrants (1.2 million warrants / strike at \$0.54)		
Total investment, net of impairment	\$ 100	\$ 150

We have recognized an impairment loss on the entire carrying value for all of these instruments, excluding our convertible note receivable, based on our assessment of their fair market values in the previous fiscal year.

Our convertible note receivable has a \$1.1 million face value, with a 1% interest rate payable in-kind with interest paid semi-annually on December 1 and June 1, and is due on June 1, 2016. We accounted for our convertible note receivable as an available-for-sale security at fair value with the related unrealized gains and losses included in accumulated other comprehensive income (loss), a component of stockholders' equity, net of tax, unless such loss was other than temporary and related to credit losses, then the loss would be recorded to other expense.

On February 24, 2010, EPV filed for Chapter 11 bankruptcy protection. As a result of events subsequent to this filing, we recorded an additional \$50 thousand of impairment based on the amount that we ultimately believe we will realize from this investment. At June 30, 2010, we believe the carrying value of our convertible note receivable approximates fair market value. Our \$0.1 million investment is currently recorded as a component of Other Non-Current Assets in our consolidated balance sheet.

Investment in EnerTech Capital Partners II L.P.

Our investment in EnerTech Capital Partners II L.P. (EnerTech) is approximately 2% of the overall ownership in EnerTech at June 30, 2010 and September 30, 2009. As such, we accounted for this investment using the cost method of accounting.

In May 2010, we received a \$0.3 million cash distribution from EnerTech. We recorded this distribution as a reduction of our investment.

EnerTech's investment portfolio periodically results in unrealized losses reflecting a possible, other-than temporary impairment of our investment. If facts arise that lead us to determine that any unrealized losses are not temporary, we would write-down our investment in EnerTech through a charge to other expense in the period of such determination. The carrying value of our investment in EnerTech at June 30, 2010 and September 30, 2009 was \$2.0 million and

\$2.5 million, respectively, and is currently recorded as a component of Other Non-Current Assets in our consolidated balance sheet. The following table presents the reconciliation of the carrying value and unrealized gains (losses) to the fair value of the investment in EnerTech as of June 30, 2010 and September 30, 2009 (in thousands):

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	June 30, 2010	September 30, 2009
Carrying value	\$ 2,013	\$ 2,491
Unrealized gains (losses)	107	276
Fair value	\$ 2,120	\$ 2,767

On December 31, 2009, EnerTech's general partner, with the consent of the fund's investors, extended the fund for an additional year through December 31, 2010. The fund will terminate on this date unless extended by the fund's valuation committee. The fund may be extended for another one-year period through December 31, 2011 with the consent of the fund's valuation committee.

Arbinet Corporation

On May 15, 2006, we received a distribution from the investment in EnerTech of 32,967 shares in Arbinet Corporation (Arbinet), formerly Arbinet-theexchange Inc. The investment is an available-for-sale marketable security and is currently recorded as a component of Other Non-Current Assets in our consolidated balance sheet. Unrealized gains and losses are recorded to other comprehensive income.

On June 11, 2010, Arbinet consummated a 1-for-4 reverse common stock split. As a result of this transaction, we now hold 8,241 shares of Arbinet common stock.

The amount of unrealized holding losses included in other comprehensive income at June 30, 2010 and September 30, 2009 is \$82 thousand and \$70 thousand, respectively. Both the carrying and market value of the investment at June 30, 2010 and September 30, 2009 were \$65 thousand and \$78 thousand, respectively.

8. EMPLOYEE BENEFIT PLANS*Executive Savings Plan*

Under the Executive Deferred Compensation Plan adopted on July 1, 2004 (the Executive Savings Plan), certain employees are permitted to defer a portion (up to 75%) of their base salary and/or bonus for a Plan Year. The Compensation Committee of the Board of Directors may, in its sole discretion, credit one or more participants with an employer deferral (contribution) in such amount as the Committee may choose (Employer Contribution). The Employer Contribution, if any, may be a fixed dollar amount, a fixed percentage of the participant's compensation, base salary, or bonus, or a matching amount with respect to all or part of the participant's elective deferrals for such plan year, and/or any combination of the foregoing as the Committee may choose.

On February 13, 2009, we suspended Company matching cash contributions to employee's contributions due to the significant impact the economic recession has had on the Company's financial performance. The aggregate contributions by us to the Executive Savings Plan were zero for the three months ended June 30, 2010 and 2009.

9. FAIR VALUE MEASUREMENTS

Fair value is considered the price to sell an asset, or transfer a liability, between market participants on the measurement date. Fair value measurements assume that the asset or liability is (1) exchanged in an orderly manner, (2) the exchange is in the principal market for that asset or liability, and (3) the market participants are independent, knowledgeable, able and willing to transact an exchange.

Fair value accounting and reporting establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required to interpret the market data used to develop fair value estimates. As such, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010, are summarized in the following table by the type of inputs applicable to the fair value measurements (in thousands):

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	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 65	\$ 65	\$	\$
Debt securities	100			100
Executive Savings Plan assets	807	807		
Executive Savings Plan liabilities	(820)	(820)		
Total	\$ 152	\$ 52	\$	\$ 100

Below is a description of the inputs used to value the assets summarized in the preceding table:

Level 1 Inputs represent unadjusted quoted prices for identical assets exchanged in active markets.

Level 2 Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets exchanged in active or inactive markets; quoted prices for identical assets exchanged in inactive markets; and other inputs that are considered in fair value determinations of the assets.

Level 3 Inputs include unobservable inputs used in the measurement of assets. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or related observable inputs that can be corroborated at the measurement date.

We estimated the fair value of our debt securities based on current available information surrounding the private company in which we invested. In the quarter ended June 30, 2010, we recognized a \$50 thousand impairment to our debt securities as detailed in Part 1. Item 1. Condensed Consolidated Financial Statements Note 7, Securities and Equity Investments *Investment in EPV Solar*. The fair value of the investments in debt securities was \$100 thousand at June 30, 2010 and \$150 thousand at September 30, 2009.

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

Claims and litigation occur frequently in the construction business. There is an inherent risk of claims and litigation associated with the number of people that work on construction sites and the fleet of vehicles on the road everyday. Additionally, latent defect litigation is normal for residential home builders in some parts of the country, and latent defect litigation is increasing in certain states where we perform work. We proactively manage such claims and litigation risks through safety programs, insurance programs, litigation management at the corporate and local levels, and a network of attorneys and law firms throughout the country. Nevertheless, claims are sometimes made and lawsuits filed for amounts in excess of their value or in excess of the amounts for which they are eventually resolved. Claims and litigation normally follow a predictable course of time to resolution. However, there may be periods of time in which a disproportionate amount of our claims and litigation are concluded in the same quarter or year. If multiple matters are resolved during a given period, then the cumulative effect of these matters on our results of operations and financial condition for the period may be disproportionately high. We believe that all current claims and litigation are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability which would have a material adverse effect on our financial position, liquidity or results of operations. We expense routine legal costs related to proceedings as they are incurred.

Centerpoint Project

We are a co-plaintiff in a breach of contract and mechanics lien foreclosure action in Maricopa County, Arizona superior court. The defendants are Centerpoint Construction, LLC (Centerpoint Construction) and Tempe Land Company, LLC (Tempe Land Company), the general contractor and owner, respectively, of a condominium and retail development project in Tempe, Arizona. In December 2008, Tempe Land Company filed for Chapter 11 bankruptcy

reorganization in the U.S. Bankruptcy Court in Phoenix, Arizona. The principal amount of our claim is approximately \$4.0 million, exclusive of interest, attorneys' fees and costs.

Our breach of contract claim for non-payment arises out of labor and services that we provided to the project property pursuant to written subcontract agreements with Centerpoint Construction. We do not have reason to believe that Centerpoint Construction has assets to satisfy any significant part of the claim. Our claim against Tempe Land Company is based on Arizona's mechanics' lien statutes, which provide for security interests against real property for the value of services provided to real property by a contractor, such as us. The possibility of collection by foreclosing on the mechanics' lien depends on two primary issues: (1) whether our, and the other mechanics' lien claimants', encumbrance against the project is superior to the project lender's deeds of trust on the project, and (2) whether the project property, if sold at foreclosure, would raise sufficient proceeds to pay the collective mechanics' lien claims brought by us and the other mechanics' lien claimants.

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In March 2009, following Tempe Land Company filing for bankruptcy, we transferred \$4.0 million of trade accounts receivable to long-term receivable. At the same time, we reserved the costs in excess of billings of \$0.3 million associated with this receivable.

In April 2010, the project property was sold at foreclosure to the project lender. In this sale, the project lender acquired the project property subject only to superior encumbrances. The priority of the mechanics lien claims over the project lender's deeds of trust will be determined after legal briefing and oral argument scheduled for August 2010. If our and the other lien claimants' claims are determined to not have priority over the project lender's deeds of trust, we will not be able to collect on our lien. If our and the other claimants' lien claims are determined to have priority over the lender's deeds of trust, it is estimated that net proceeds of approximately \$20 million from a subsequent foreclosure sale of the property would be required to pay our and the other lien claimants' claims in full. If our and the other lien claimants' claims have priority and the property is sold at foreclosure for less than the approximate \$20 million necessary to satisfy our and the other lien claims in full, then each lien claim will be paid pro rata from the proceeds of the foreclosure sale.

As a result of the April 2010 foreclosure sale, we have determined that there is a reasonable possibility, but not a probability, of collection of our claim and have written-off the remaining \$3.7 million long-term receivable. Despite this write-off, we continue to believe in the merit of, and will vigorously pursue, our claims.

Ward Transformer Site

One of our subsidiaries has been identified as one of more than 200 potentially responsible parties (PRPs) with respect to the clean-up of an electric transformer resale and reconditioning facility, known as the Ward Transformer Site, located in Raleigh, North Carolina. The facility built, repaired, reconditioned and sold electric transformers from approximately 1964 to 2005. We did not own or operate the facility but a subsidiary that we acquired in July 1999 is believed to have sent transformers to the facility during the 1990's. During the course of its operation, the facility was contaminated by Polychlorinated Biphenyls (PCBs), which also have been found to have migrated off the site.

Four PRPs have commenced clean-up of on-site contaminated soils under an Emergency Removal Action pursuant to a settlement agreement and Administrative Order on Consent entered into between the four PRPs and the U.S. Environmental Protection Agency (EPA) in September 2005. We are not a party to that settlement agreement or Order on Consent. In April 2009, two of these PRPs, Carolina Power and Light Company and Consolidation Coal Company, filed suit against us and most of the other PRPs in the U.S. District Court for the Eastern District of North Carolina (Western Division) to contribute to the cost of the clean-up. In addition to the on-site clean-up, the EPA has selected approximately 50 PRPs to which it sent a Special Notice Letter in late 2008 to organize the clean-up of soils off site and address contamination of groundwater and other miscellaneous off-site issues. We were not a recipient of that letter.

In March 2010, the U.S. District Court in North Carolina issued its decision on motions to dismiss filed by defendants, dismissing all pending claims against us, with prejudice. Subsequently, two parties to the lawsuit filed a joint motion for reconsideration, which, on July 19, 2010, was granted, permitting such parties to amend their pleadings to reassert claims against us. Based on our investigation to date, there is evidence to support our defense that our subsidiary contributed no PCB contamination to the site. In addition, we have tendered a demand for indemnification to the former owner of our subsidiary that may have transacted business with the facility and are exploring the existence and applicability of insurance policies that could mitigate potential exposure. As of June 30, 2010, we have not recorded a reserve for this matter, as we believe the likelihood of our responsibility for damages is not probable and a potential range of exposure is not estimable.

Self-Insurance

We are subject to large deductibles on our property and casualty insurance policies. As a result, many of our claims are effectively self-insured. Many claims against our insurance are in the form of litigation. At June 30, 2010, we had \$6.4 million accrued for self-insurance liabilities, including \$1.0 million for general liability coverage losses. We are also subject to construction defect liabilities, primarily within our Residential segment. We believe the likely range of our potential liability for construction defects is from \$0.5 million to \$1.0 million. As of June 30, 2010, we had reserved \$0.5 million for these claims.

Surety

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a surety. Those bonds provide a guarantee to the customer that we will perform under the terms of our contract and that we will pay our subcontractors and vendors. If we fail to perform under the terms of our contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the sureties for any expenses or outlays they incur on our behalf. To date, we have not been required to make any reimbursements to our sureties for bond-related costs.

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As is common in the surety industry, sureties issue bonds on a project-by-project basis and can decline to issue bonds at any time. We believe that our relationships with our sureties will allow us to provide surety bonds as they are required. However, current market conditions, as well as changes in our sureties' assessment of our operating and financial risk, could cause our sureties to decline to issue bonds for our work. If our sureties decline to issue bonds for our work, our alternatives would include posting other forms of collateral for project performance, such as letters of credit or cash, seeking bonding capacity from other sureties, or engaging in more projects that do not require surety bonds. In addition, if we are awarded a project for which a surety bond is required but we are unable to obtain a surety bond, the result can be a claim for damages by the customer for the costs of replacing us with another contractor.

As of June 30, 2010, we utilized a combination of cash and letters of credit totaling \$10.1 million to collateralize our obligations to our sureties, which was comprised of \$3.5 million in letters of credit and \$6.6 million of cash and accumulated interest (as is included in Other Non-Current Assets in our consolidated balance sheet). Posting letters of credit in favor of our sureties reduces the borrowing availability under our Revolving Credit Facility. As of June 30, 2010, the estimated cost to complete our bonded projects was approximately \$117.9 million. On May 7, 2010 we entered into a new surety agreement. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. We believe the bonding capacity presently provided by our sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future.

Other Commitments and Contingencies

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral. This is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At June 30, 2010, \$11.8 million of our outstanding letters of credit were utilized to collateralize our insurance program.

Between October 2004 and September 2005, we sold all or substantially all of the assets of certain of our wholly-owned subsidiaries. These sales were made to facilitate the business needs and purposes of the organization as a whole. Since we were a consolidator of electrical contracting businesses, often the best candidate to purchase these assets was a previous owner of the assets who usually was still associated with the subsidiary, often as an officer of that subsidiary, or otherwise. To facilitate the desired timing, the sales were made with more than ordinary reliance on the representations of the purchaser who was, in those cases, often the person most familiar with the business sold. As these sales were assets sales, rather than stock sales, we may be required to fulfill obligations that were assigned or sold to others, if the purchaser is unwilling or unable to perform the transferred liabilities. If this were to occur, we would seek reimbursement from the purchasers. These potential liabilities will continue to diminish over time. As of June 30, 2010, all projects transferred have been completed. To date, we have not been required to perform on any projects sold under this divestiture program.

From time to time, we may enter into firm purchase commitments for materials such as copper or aluminum wire which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specific intervals at a fixed price over the term. As of June 30, 2010, we had no open purchase commitments.

11. CONTROLLING SHAREHOLDER

On May 13, 2010, Tontine, filed an amended Schedule 13D. On April 30, 2010, we prepaid \$15.0 million of the original \$25.0 million principal outstanding on the Tontine Term Loan; accordingly \$10.0 million remains outstanding.

Although Tontine has not indicated any plans to alter its ownership level, should Tontine reconsider its investment plans and sell its controlling interest in the Company, a change in ownership would occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses for federal and state income tax purposes. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our \$60 million Revolving Credit facility, bonding agreements with our sureties and certain employment contracts with certain officers and employees of the Company.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with our audited consolidated financial statements, the related Notes, and management's discussion and analysis included in our annual report on Form 10-K for the year ended September 30, 2009. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to the risk factors discussed in the Risk Factors section of our annual report on Form 10-K for the year ended September 30, 2009, and in the Disclosures Regarding Forward-Looking Statements, and elsewhere in this quarterly report on Form 10-Q. Actual results may differ materially from those contained in any forward-looking statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operation are based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. Preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

We have identified the accounting principles that we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. These accounting policies are those related to revenue recognition, the assessment of goodwill impairment, our allowance for doubtful accounts receivable, the recording of our self-insurance liabilities and our estimation of the valuation allowance for deferred tax assets. These accounting policies, as well as others, are described in Part 2. Item 8. Financial Statements and Supplementary Data Note 2, Summary of Significant Accounting Policies in our annual report on Form 10-K for the year ended September 30, 2009.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Results of operations from our Residential construction segment are more seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. The Commercial & Industrial segment of our business is less subject to seasonal trends, as this work generally is performed inside structures protected from the weather. Our service and maintenance business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national economic conditions. Quarterly results may also be materially affected by the timing of new construction projects. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

RESTRUCTURING PROGRAM

In the first quarter of our 2009 fiscal year, we began a new restructuring program (the 2009 Restructuring Plan) that was designed to consolidate operations within our three segments. The 2009 Restructuring Plan was the next level of our business optimization strategy. Our plan was to streamline local project and support operations, which were managed through regional operating centers, and to capitalize on the investments we had made over the past year to further leverage our resources. We accelerated our trade name amortization during the 2009 fiscal year by recording a charge of \$1.6 million as identified within the Restructuring Charges caption in our consolidated statements of operations.

In addition, as a result of the continuing significant effects of the recession, during the third quarter of fiscal year 2009, we implemented a more expansive cost reduction program, by further reducing administrative personnel, primarily in the corporate office, and consolidating our Commercial and Industrial administrative functions into one service center. We now manage and measure performance of our business in two distinct operating segments: Commercial & Industrial and Residential. These segments are reflective of how the Company's Chief Operation Decision Maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The Company's CODM is its Chief Executive Officer. Prior period disclosures have been adjusted to reflect the change in reportable segments. As part of this expanded 2009 Restructuring Plan, we do not expect to exceed \$0.5 million in additional pre-tax restructuring charges, including severance benefits and facility consolidations and closings over the remainder of our current fiscal year.

Details regarding the components of the restructuring charges are described in Part 1. Item 1. Condensed Consolidated Financial Statements Note 2, Strategic Actions of this report, which is incorporated herein by reference.

FINANCING

The Tontine Term Loan

On December 12, 2007, we entered into a \$25.0 million senior subordinated loan agreement (the Tontine Term Loan) with Tontine Capital Partners, L.P., a related party. The Tontine Term Loan bears interest at 11.0% per annum and is due on May 15, 2013. Interest is payable quarterly in cash or in-kind at our option. Any interest paid in-kind will bear interest at 11.0% in addition to the loan principal. On April 30, 2010, we prepaid \$15.0 million of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to TCP Overseas Master Fund II, L.P., (TCP 2). We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty. The Tontine Term Loan is subordinated to our existing Revolving Credit Facility (defined below) with Bank of America, N.A. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers. The Tontine Term Loan contains no financial covenants or restrictions on dividends or distributions to stockholders.

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Insurance Financing Agreements

From time to time, we elect to finance our commercial insurance policy premiums over a term equal to or less than the term of the policy (Insurance Financing Agreements). We previously referred to these financing arrangements as the Camden Notes.

On October 1, 2009, we financed an insurance policy in the initial principal amount of \$0.5 million with First Insurance Funding Corp. (First Insurance Funding), which matures on September 1, 2010. Under the terms of this note, we are to make eleven equal monthly payments of \$49,319 (including principal and interest) beginning on November 1, 2009.

On December 15, 2009, we financed an insurance policy in the initial principal amount of \$0.2 million with First Insurance Funding, which matures on November 1, 2010. Under the terms of this note, we are to make ten equal monthly payments of \$22,037 (including principal and interest) beginning on January 1, 2010.

The Insurance Financing Agreements are collateralized by the gross unearned premiums on the respective insurance policies plus any payments for losses claimed under the policies.

The Revolving Credit Facility

On May 12, 2006, we entered into a Loan and Security Agreement (the Loan and Security Agreement), for a revolving credit facility (the Revolving Credit Facility) with Bank of America, N.A. and certain other lenders. On May 7, 2008, we renegotiated the terms of our Revolving Credit Facility and entered into an amended agreement with the same financial institutions. The Loan and Security Agreement, as amended, provided us with access to a \$60.0 million Revolving Credit Facility. Borrowings under the Revolving Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventory. The Revolving Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries existing and future acquired assets, exclusive of collateral provided to our surety providers. The Revolving Credit Facility contains customary affirmative, negative and financial covenants. The Revolving Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock.

On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement without incurring termination charges. Under the terms of the amended Revolving Credit Facility, the size of the facility remains at \$60.0 million, and the maturity date has been extended to May 12, 2012. In connection with the amendment, we incurred an amendment fee of \$0.2 million, which will be amortized over 24 months.

At June 30, 2010, we had \$7.9 million available to us under the Revolving Credit Facility, based on a borrowing base of \$28.6 million, \$20.7 million in outstanding letters of credit, and no outstanding borrowings.

The financial covenants in effect as of June 30, 2010 under the Revolving Credit Facility are described in Part 1. Item 1. Condensed Consolidated Financial Statements Note 3, Debt and Liquidity of this report.

SURETY

Surety

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a surety. Those bonds provide a guarantee to the customer that we will perform under the terms of our contract and that we will pay our subcontractors and vendors. If we fail to perform under the terms of our contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the sureties for any expenses or outlays they incur on our behalf. To date, we have not been required to make any reimbursements to our sureties for bond-related costs.

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As is common in the surety industry, sureties issue bonds on a project-by-project basis and can decline to issue bonds at any time. We believe that our relationships with our sureties will allow us to provide surety bonds as they are required. However, current market conditions, as well as changes in our sureties' assessment of our operating and financial risk, could cause our sureties to decline to issue bonds for our work. If our sureties decline to issue bonds for our work, our alternatives would include posting other forms of collateral for project performance, such as letters of credit or cash, seeking bonding capacity from other sureties, or engaging in more projects that do not require surety bonds. In addition, if we are awarded a project for which a surety bond is required but we are unable to obtain a surety bond, the result can be a claim for damages by the customer for the costs of replacing us with another contractor.

As of June 30, 2010, we utilized a combination of cash and letters of credit totaling \$10.1 million to collateralize our obligations to our sureties, which was comprised of \$3.5 million in letters of credit and \$6.6 million of cash and accumulated interest (as is included in Other Non-Current Assets in our consolidated balance sheet). Posting letters of credit in favor of our sureties reduces the borrowing availability under our Revolving Credit Facility. As of June 30, 2010, the estimated cost to complete our bonded projects was approximately \$117.9 million. On May 7, 2010 we entered into a new surety agreement. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. We believe the bonding capacity presently provided by our sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2010 COMPARED TO THE
THREE
MONTHS ENDED JUNE 30, 2009**

The following tables present selected historical results of operations of IES and its subsidiaries, with dollar amounts in millions and percentages expressed as a percent of revenues:

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Revenues	\$ 121.4	100.0%	\$ 172.2	100.0%
Cost of services	106.3	87.6%	140.6	81.6%
Gross profit	15.1	12.4%	31.6	18.4%
Selling, general and administrative expenses	21.1	17.4%	26.9	15.6%
Gain on sale of assets	(0.1)	(0.1)%	(0.2)	(0.1)%
Restructuring charges		%	0.6	0.4%
Income (loss) from operations	(5.9)	(4.9)%	4.3	2.5%
Interest and other expense, net	0.8	0.6%	1.5	0.9%
Loss before income taxes	(6.7)	(5.5)%	2.8	1.6%
Provision for income taxes	(0.1)	(0.1)%	1.5	0.9%
Net loss	\$ (6.6)	(5.4)%	\$ 1.3	0.7%

Revenues

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Commercial & Industrial	\$ 89.9	74.1%	\$ 134.5	78.1%

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Residential	31.5	25.9%	37.7	21.9%
Total Consolidated	\$ 121.4	100.0%	\$ 172.2	100.0%

Consolidated revenues for the quarter ended June 30, 2010 were \$50.8 million less than the quarter ended June 30, 2009, a reduction of 29.5%. Each of our two business segments experienced declines in construction activity during the quarter ended June 30, 2010, primarily due to a nationwide decline in construction activity as a result of the challenging economic environment.

Revenues in our Commercial & Industrial segment decreased \$44.6 million, or 33.1%, during the quarter ended June 30, 2010,

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compared to the quarter ended June 30, 2009. Many of our operating locations experienced revenue declines, as most industry sectors have continued to reduce, delay or cancel proposed construction projects. We also experienced increased competition from residential contractors who have been affected by the housing slowdown for less specialized retail work with lower barriers to entry. We experienced some revenue increases relating to our communications business due to our presence in markets with stronger growth.

Residential segment revenues decreased \$6.2 million during the quarter ended June 30, 2010, a decrease of 16.6%, compared to the quarter ended June 30, 2009, due to the slowdown in housing construction. The ongoing nationwide decline in demand for single-family homes affected our Residential segment, particularly in markets such as Southern California, Arizona, Georgia, Nevada and Texas. In addition, multi-family housing construction declined markedly in the quarter ended June 30, 2010, primarily due to the deferral of certain projects as they await financing or were cancelled altogether. We attribute this decrease largely to reductions in building activity throughout the markets we serve.

Gross Profit

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Commercial & Industrial	\$ 8.8	9.7%	\$ 22.2	16.5%
Residential	6.3	20.1%	9.4	25.0%
Total Consolidated	\$ 15.1	12.4%	\$ 31.6	18.4%

Our consolidated gross profit for the quarter ended June 30, 2010 declined by \$16.5 million, or 52.3% compared to consolidated gross profit for the quarter ended June 30, 2009. Our overall gross profit as a percentage of revenue decreased to 12.4% during the quarter ended June 30, 2010, compared to 18.4% during the quarter ended June 30, 2009, primarily due to a decline in higher margin construction projects and increases in costs of materials.

Our Commercial & Industrial segment's gross profit during the quarter ended June 30, 2010 decreased \$13.4 million compared to the quarter ended June 30, 2009. Commercial & Industrial's gross margin percentage decreased during the quarter ended June 30, 2010, primarily due to a decline in higher margin construction projects and increases in costs of materials.

During the quarter ended June 30, 2010, our Residential segment experienced a \$3.1 million reduction in gross profit compared to the quarter ended June 30, 2009. Gross margin percentage in the Residential segment declined to 20.1% during the quarter ended June 30, 2010. We attribute the decline in Residential's gross margin to the decline in higher margin multi-family housing projects, an increase in material costs and intensified market competition during our third quarter 2010 in our single family sector.

Selling, General and Administrative Expenses

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Commercial & Industrial	\$ 11.5	12.8%	\$ 14.4	10.7%
Residential	6.1	19.3%	8.1	21.3%
Corporate	3.5		4.4	
Total Consolidated	\$ 21.1	17.4%	\$ 26.9	15.6%

Selling, general and administrative expenses are those costs not directly associated with performing work for our customers. These costs consist primarily of compensation and benefits related to corporate and business unit management, occupancy and utilities, training, professional services, consulting fees, travel, and certain types of depreciation and amortization.

During the quarter ended June 30, 2010, our selling, general and administrative expenses were \$21.1 million, a decrease of \$5.8 million, or 21.4%, over the quarter ended June 30, 2009. The reduction in 2010 expenses was primarily due to decreases of \$5.7 million in employment expenses as a result of our ongoing cost reduction efforts and \$1.0 million in accounting, legal and other professional fees offset by an increase of \$1.0 million in the allowance for doubtful accounts. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 10, Commitments and Contingencies *Legal Matters* of this report.

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As of October 1, 2009, we began allocating certain corporate selling, general and administrative costs across our segments as we believe this more accurately reflects the costs associated with operating each segment. We reclassified our quarter ended June 30, 2009 selling, general and administrative costs using the same methodology.

As a result of our 2009 Restructuring Plan, on October 1, 2009, the Company implemented modifications to its system of reporting, resulting from changes to its internal organization, which changed its reportable segments. These changes to the internal organization included the realignment of our Industrial segment into our Commercial & Industrial segment.

Restructuring Charges

In 2007, we restructured our operations from a decentralized structure into three major lines of business: Commercial, Industrial and Residential. Thereafter, on October 1, 2009 we consolidated the Industrial segment into the Commercial & Industrial segment. These lines of business are supported by two dedicated administrative shared service centers which consolidated many of the administrative functions into centralized locations. In addition, the next level of our business optimization strategy has been to streamline local projects and support operations, which will be managed through regional operating centers, and to capitalize on the investments we made over the past two years to further leverage our resources.

The costs associated with our 2009 Restructuring Plan are decreasing as we near completion of the Plan. In conjunction with our 2009 Restructuring Plan, we recognized the following costs during the three months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,	
	2010	2009
	(Dollars in thousands)	
Severance compensation	\$	\$ 217
Consulting and other charges		14
Non-cash asset amortization and write-offs		402
Total restructuring charges	\$	\$ 633

Interest and Other Expense, Net

	Three Months Ended June 30,	
	2010	2009
	(Dollars in thousands)	
Interest expense	\$ 708	\$ 1,262
Debt prepayment penalty and deferred cost amortization	76	63
Total interest expense	784	1,325
Interest income	(92)	(67)
Other income (expense)	55	276
Total interest and other expense, net	\$ 747	\$ 1,534

During the quarter ended June 30, 2010, we incurred interest expense of \$0.8 million on an average debt balance of \$15.0 million for the Tontine Term Loan and an average letter of credit balance of \$20.5 million and an average unused line of credit balance of \$39.5 million under the Revolving Credit Facility. This compared to interest expense of \$1.3 million for the quarter ended June 30, 2009, on an average debt balance of \$25.2 million on the Tontine Term Loan and an average letter of credit balance of \$25.7 million and an average unused line of credit balance of

\$34.3 million.

During the quarter ended June 30, 2010, total interest expense was offset by \$0.1 million in interest income on an average cash and cash equivalents balance of \$40.2 million, compared to \$0.1 million in interest income on an average cash and cash equivalents balance of \$54.1 million during the quarter ended June 30, 2009. Interest income was derived from average interest rates of 0.5 percent during the quarter ended June 30, 2010, and 0.5 percent during the quarter ended June 30, 2009.

Table of Contents**Provision for Income Taxes**

On May 12, 2006, we had a change in ownership as defined in Internal Revenue Code Section 382. As such, our net operating loss utilization after the change date will be subject to Section 382 limitations for federal income taxes and some state income taxes. We have provided valuation allowances on all net operating losses where it is determined it is more likely than not that they will expire without being utilized.

The provision for income taxes decreased from a provision of \$1.5 million for the quarter ended June 30, 2009 to a benefit of \$98 thousand for the quarter ended June 30, 2010. The decrease in the provision for income taxes for the quarter ended June 30, 2010 is attributable to the increase in net loss, a decrease in state income taxes and a decrease in the provision for uncertain tax benefits. The implementation of the updated standards on business combinations did not effect the provision for the quarter ended June 30, 2010. As described in Part 1. Item 1. Condensed Consolidated Financial Statements Note 1, Summary of Significant Accounting Policies of this report, which is incorporated herein by reference, the FASB issued updated standards on business combinations and accounting and reporting of non-controlling interests in consolidated financial statements that will change this accounting, requiring recognition of previously unrecorded tax benefits as a reduction of income tax expense. After our adoption of the new standards on October 1, 2009, reductions in the valuation allowance attributable to all periods, if any should occur, will be recorded as an adjustment to our income tax expense.

**RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2010 COMPARED TO THE
NINE MONTHS ENDED JUNE 30, 2009**

The following tables present selected historical results of operations of IES and its subsidiaries, with dollar amounts in millions and percentages expressed as a percent of revenues:

	Nine Months Ended June 30, 2010		Nine Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Revenues	\$ 349.3	100.0%	\$ 512.6	100.0%
Cost of services	300.7	86.1%	423.1	82.5%
Gross profit	48.6	13.9%	89.5	17.5%
Selling, general and administrative expenses	66.1	18.9%	82.7	16.1%
Gain on sale of assets	(0.2)	%	(0.4)	(0.1)%
Restructuring charges	0.8	0.2%	3.7	0.7%
Loss from operations	(18.1)	(5.2)%	3.5	0.8%
Interest and other expense, net	2.5	0.7%	2.9	0.6%
Loss before income taxes	(20.6)	(5.9)%	0.6	0.2%
Benefit (provision) for income taxes		%	0.6	0.1%
Net loss	\$ (20.6)	(5.9)%	\$	0.1%

Revenues

	Nine Months Ended June 30, 2010		Nine Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Commercial & Industrial	\$ 260.7	74.6%	\$ 395.6	77.2%
Residential	88.6	25.4%	117.0	22.8%

Total Consolidated	\$	349.3	100.0%	\$	512.6	100.0%
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Consolidated revenues for the nine months ended June 30, 2010 were \$163.3 million less than the nine months ended June 30, 2009, a reduction of 31.9%. Each of our two business segments experienced declines in construction activity during the nine months ended June 30, 2010, primarily due to a nationwide decline in construction activity as a result of the challenging economic environment.

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Revenues in our Commercial & Industrial segment decreased \$134.9 million, or 34.1%, during the nine months ended June 30, 2010, compared to the nine months ended June 30, 2009. Many of our operating locations experienced revenue declines, as most industry sectors have continued to reduce, delay or cancel proposed construction projects. We also experienced increased competition from residential contractors who have been affected by the housing slowdown for less specialized retail work with lower barriers to entry. We experienced some revenue increases relating to our communications business due to our presence in markets with stronger growth.

Residential segment revenues decreased \$28.4 million during the nine months ended June 30, 2010, a decrease of 24.3%, compared to the nine months ended June 30, 2009, due to the slowdown in housing construction. The ongoing nationwide decline in demand for single-family homes adversely affected our Residential segment, particularly in markets such as Southern California, Arizona, Georgia, Nevada and Texas. In addition, multi-family housing construction has continued to decline, primarily due to the deferral of certain projects as they await financing or were cancelled altogether.

Gross Profit

	Nine Months Ended June 30, 2010		Nine Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Commercial & Industrial	\$ 29.2	11.2%	\$ 62.1	15.7%
Residential	19.4	22.0%	27.4	23.5%
Total Consolidated	\$ 48.6	13.9%	\$ 89.5	17.5%

Our consolidated gross profit for the nine months ended June 30, 2010 declined by \$40.9 million, or 45.7% compared to consolidated gross profit for the nine months ended June 30, 2009. Our overall gross profit as a percentage of revenue decreased to 13.9% during the nine months ended June 30, 2010, compared to 17.5% during the nine months ended June 30, 2009, primarily due to lower margin construction projects and increases in costs of materials.

Our Commercial & Industrial segment's gross profit during the nine months ended June 30, 2010 decreased \$32.9 million compared to the nine months ended June 30, 2009. Commercial & Industrial's gross margin percentage decreased during the nine months ended June 30, 2010, primarily due to lower margin construction projects and increases in costs of materials.

During the nine months ended June 30, 2010, our Residential segment experienced a \$8.0 million reduction in gross profit compared to the nine months ended June 30, 2009. Gross margin percentage in the Residential segment decreased to 22.0% during the nine months ended June 30, 2010. We attribute much of the decline in Residential's gross margin to an increase in material costs, decreased pricing and intensified market competition during the nine months ended June 30, 2010 in our single family sector.

Selling, General and Administrative Expenses

	Nine Months Ended June 30, 2010		Nine Months Ended June 30, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Commercial & Industrial	\$ 36.0	13.8%	\$ 44.1	11.2%
Residential	18.6	21.0%	25.7	22.0%
Corporate	11.5		12.9	
Total Consolidated	\$ 66.1	18.9%	\$ 82.7	16.1%

Selling, general and administrative expenses are those costs not directly associated with performing work for our customers. These costs consist primarily of compensation and benefits related to corporate and business unit management, occupancy and utilities, training, professional services, consulting fees, travel, and certain types of depreciation and amortization.

During the nine months ended June 30, 2010, our selling, general and administrative expenses were \$66.1 million, a decrease of \$16.6 million, or 20.1%, over the nine months ended June 30, 2009. The reduction in 2010 expenses was primarily due to a \$16.2 million decrease in employment expenses as a result of our ongoing cost reduction efforts; a \$3.1 million decrease in

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accounting, legal and other professional fees; and a \$1.7 million decrease in occupancy costs offset by increases of \$3.7 million for the write-off of our Centerpoint long-term receivable; \$1.7 million in the allowance for doubtful accounts; \$0.8 million decrease in travel expenses; and \$0.5 million of severance. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 10, Commitments and Contingencies *Legal Matters* of this report.

As of October 1, 2009, we began allocating certain corporate selling, general and administrative costs across our segments as we believe this more accurately reflects the costs associated with operating each segment. We reclassified our nine months ended June 30, 2009 selling, general and administrative costs using the same methodology.

As a result of our 2009 Restructuring Plan, on October 1, 2009, the Company implemented modifications to its system of reporting, resulting from changes to its internal organization, which changed its reportable segments. These changes to the internal organization included the realignment of our Industrial segment into our Commercial & Industrial segment.

Restructuring Charges

In 2007, we restructured our operations from a decentralized structure into three major lines of business: Commercial, Industrial and Residential. Thereafter, on October 1, 2009 we consolidated the Industrial segment into the Commercial & Industrial segment. These lines of business are supported by two dedicated administrative shared service centers which consolidated many of the administrative functions into centralized locations. In addition, the next level of our business optimization strategy has been to streamline local projects and support operations, which will be managed through regional operating centers, and to capitalize on the investments we made over the past two years to further leverage our resources.

The costs associated with our 2009 Restructuring Plan are decreasing as we near completion of the Plan. In conjunction with our 2009 Restructuring Plan, we recognized the following costs during the nine months ended June 30, 2010 and 2009 (in thousands):

	Nine Months Ended June 30,	
	2010	2009
	(Dollars in thousands)	
Severance compensation	\$ 763	\$ 1,894
Consulting and other charges		674
Non-cash asset amortization and write-offs		1,206
Total restructuring charges	\$ 763	\$ 3,774

Interest and Other Expense, Net

	Nine Months Ended June 30,	
	2010	2009
	(Dollars in thousands)	
Interest expense	\$ 2,646	\$ 3,224
Debt prepayment penalty and deferred cost amortization	223	191
Total interest expense	2,869	3,415
Interest income	(208)	(340)
Other income (expense)	(172)	(197)
Total interest and other expense, net	\$ 2,489	\$ 2,878

During the nine months ended June 30, 2010, we incurred interest expense of \$2.9 million on an average debt balance of \$21.7 million for the Tontine Term Loan and an average letter of credit balance of \$22.6 million and an average unused line of credit balance of \$37.4 million under the Revolving Credit Facility. This compared to interest expense of \$3.4 million for the nine months ended June 30, 2009, on an average debt balance of \$25.2 million on the Tontine Term Loan and an average letter of credit balance of \$31.3 million and an average unused line of credit balance of \$28.7 million.

During the nine months ended June 30, 2010, total interest expense was offset by \$0.2 million in interest income on an average cash and cash equivalents balance of \$50.2 million, compared to \$0.3 million in interest income on an average cash and cash equivalents balance of \$54.7 million during the nine months ended June 30, 2009. Interest income was negatively impacted by lower interest rates which averaged 0.5 percent during the nine months ended June 30, 2010, compared to 0.8 percent during the nine months ended June 30, 2009.

Table of Contents**Provision for Income Taxes**

On May 12, 2006, we had a change in ownership as defined in Internal Revenue Code Section 382. As such, our net operating loss utilization after the change date will be subject to Section 382 limitations for federal income taxes and some state income taxes. We have provided valuation allowances on all net operating losses where it is determined it is more likely than not that they will expire without being utilized.

The provision for income taxes decreased from a provision of \$0.6 million for the nine months ended June 30, 2009 to a provision of \$28 thousand for the nine months ended June 30, 2010. The decrease in the provision for income taxes for the nine months ended June 30, 2010 is attributable to the increase in net loss, a decrease in state income taxes and a decrease in the provision for uncertain tax benefits. The implementation of the updated standards on business combinations did not effect the provision for the nine months ended June 30, 2010. As described in Part 1. Item 1. Condensed Consolidated Financial Statements Note 1, Summary of Significant Accounting Policies of this report, which is incorporated herein by reference, the FASB issued updated standards on business combinations and accounting and reporting of non-controlling interests in consolidated financial statements that will change this accounting, requiring recognition of previously unrecorded tax benefits as a reduction of income tax expense. After our adoption of the new standards on October 1, 2009, reductions in the valuation allowance attributable to all periods, if any should occur, will be recorded as an adjustment to our income tax expense.

Working Capital

	June 30, 2010	September 30, 2009
	(Dollars in millions)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30.7	\$ 64.2
Accounts receivable		
Trade, net of allowance of \$3.5 and \$3.3 respectively	86.0	100.8
Retainage	17.6	26.5
Inventories	9.8	10.1
Costs and estimated earnings in excess of billings on uncompleted contracts	12.6	13.6
Prepaid expenses and other current assets	5.9	6.1
Total current assets	\$ 162.6	\$ 221.3
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 1.3	\$ 2.1
Accounts payable and accrued expenses	56.4	76.5
Billings in excess of costs and estimated earnings on uncompleted contracts	11.4	21.1
Total current liabilities	\$ 69.1	\$ 99.7
Working capital	\$ 93.5	\$ 121.6

During the nine months ended June 30, 2010 working capital decreased by \$28.1 million from September 30, 2009, reflecting a \$58.7 million decrease in current assets and a \$30.6 million decrease in current liabilities during the period.

During the nine months ended June 30, 2010 our current assets decreased by \$58.7 million, or 26.5%, to \$162.6 million, as compared to \$221.3 million as of September 30, 2009. Cash and cash equivalents decreased by \$33.5 million during nine months ended June 30, 2010 as compared to September 30, 2009. Current trade accounts receivables, net, decreased by \$14.8 million at June 30, 2010, as compared to September 30, 2009. Days sales outstanding (DSOs) increased to 79 days as of June 30, 2010 from 72 days as of September 30, 2009. This increase was driven predominantly by slow-downs in receipt of certain customer payments, which we attribute to distressed financial markets and the challenging economic environment. While collections may be delayed, our secured position, resulting from our ability to secure liens against our customers' over due receivables, reasonably assures that collection will occur eventually to the extent that our security retains value. In light of the volatility of the current financial markets, we closely monitor the collectability of our receivables. We also experienced a \$8.9 million decrease in retainage and a \$1.0 million decrease in costs in excess of billings during the nine months ended June 30, 2010 compared to September 30, 2009, primarily due to the continued reduction in volumes.

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During the nine months ended June 30, 2010, our total current liabilities decreased by \$30.6 million to \$69.1 million, compared to \$99.7 million as of September 30, 2009. During the nine months ended June 30, 2010 accounts payable and accrued expenses decreased \$20.1 million as a result of lower volumes. Billings in excess of costs decreased by \$9.7 million during the nine months ended June 30, 2010 compared to September 30, 2009, due to the overall lower volumes of work performed. Finally, current maturities of long-term debt decreased by \$0.8 million during the nine months ended June 30, 2010 compared to September 30, 2009.

Liquidity and Capital Resources

As of June 30, 2010, we had cash and cash equivalents of \$30.7 million, working capital of \$93.5 million, \$20.7 million of letters of credit outstanding and \$7.9 million of available capacity under our Revolving Credit Facility. We anticipate that the combination of cash on hand, cash flows and available capacity under our Revolving Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. Our ability to generate cash flow is dependent on many factors, including demand for our services, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables, and our ability to borrow on our amended Revolving Credit Facility, if needed. We were in compliance with our covenants under our Revolving Credit Facility at June 30, 2010.

We continue to closely monitor the financial markets and general national and global economic conditions. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted in the future by adverse conditions in the financial markets.

Operating Activities

Our cash flow from operations is primarily influenced by cyclical demand for our services, operating margins and the type of services we provide but can also be influenced by working capital needs such as the timing of our receivable collections. Working capital needs are generally lower during our fiscal first and second quarters due to the seasonality that we experience in many regions of the country. Operating activities used net cash of \$16.4 million during the nine months ended June 30, 2010, as compared to \$6.9 million of net cash provided in the nine months ended June 30, 2009. The change in operating cash flows in the nine months ended June 30, 2010 was due to the year to date net loss of \$20.6 million, increased collections of accounts receivable and retainage of \$20.7 million, coupled with reduced overall working capital needs during the nine months ended June 30, 2009, primarily as a result of lower levels of revenue activity and improved material management, including a vendor managed inventory strategy. Additionally, the \$20.1 million reduction of our accounts payable and accrued expenses was primarily due to the overall reduction in revenues along with the associated decrease in purchased materials compared to the nine months ended June 30, 2009.

Investing Activities

In the nine months ended June 30, 2010, we provided net cash from investing activities of \$0.1 million as compared to \$6.0 million of net cash used in investing activities in the nine months ended June 30, 2009. Investing activities in the nine months ended June 30, 2010 included \$0.5 million used for capital expenditures partially offset by a cash distribution from an investment of \$0.4 million and \$0.2 million of proceeds from the sale of equipment. Investing activities in the nine months ended June 30, 2009 included \$4.1 million used for capital expenditures, partially offset by \$0.2 million of proceeds from the sale of equipment. In addition, investing activities in the nine months ended June 30, 2009 included \$2.2 million used for investments in unconsolidated affiliates.

Financing Activities

Financing activities used net cash of \$17.2 million in the nine months ended June 30, 2010 compared to \$5.1 million used in the nine months ended June 30, 2009. Financing activities in the nine months ended June 30, 2010 included \$17.5 million used for payments of debt, \$0.2 million used for debt issuance costs and \$0.2 million used for the acquisition of treasury stock netted against \$0.8 million provided by new insurance financing. Financing activities in the nine months ended June 30, 2009 included \$4.3 million used for the purchase of treasury stock and \$1.8 million used for payments of debt netted against \$1.1 million provided by new financing.

Bonding Capacity

At June 30, 2010, we had adequate surety bonding capacity under our surety agreements. Our ability to access this bonding capacity is at the sole discretion of our surety providers. As of June 30, 2010, the expected cumulative cost to complete for projects covered by our surety providers was \$117.9 million. We believe we have adequate remaining available bonding capacity to meet our current needs, subject to the sole discretion of our surety providers. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 10, Commitments and Contingencies *Surety* of this report.

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Controlling Shareholder

On May 13, 2010, Tontine, filed an amended Schedule 13D indicating its ownership level of 58.7%. On April 30, 2010, we prepaid \$15.0 million of the original \$25.0 million principal outstanding on the Tontine Term Loan; accordingly \$10.0 million remains outstanding.

Although Tontine has not indicated any plans to alter its ownership level, should Tontine reconsider its investment plans and sell its controlling interest in the Company, a change in ownership would occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses for federal and state income tax purposes. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our \$60 million Revolving Credit facility, bonding agreements with our sureties and certain employment contracts with certain officers and employees of the Company.

Off-Balance Sheet Arrangements and Contractual Obligations

As is common in our industry, we have entered into certain off-balance sheet arrangements that expose us to increased risk. Our significant off-balance sheet transactions include commitments associated with non-cancelable operating leases, letter of credit obligations, firm commitments for materials and surety guarantees.

We enter into non-cancelable operating leases for many of our vehicle and equipment needs. These leases allow us to retain our cash when we do not own the vehicles or equipment, and we pay a monthly lease rental fee. At the end of the lease, we have no further obligation to the lessor. We may cancel or terminate a lease before the end of its term. Typically, we would be liable to the lessor for various lease cancellation or termination costs and the difference between the fair market value of the leased asset and the implied book value of the leased asset as calculated in accordance with the lease agreement.

Some of our customers and vendors require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. At June 30, 2010, \$5.4 million of our outstanding letters of credit were to collateralize our customers and vendors.

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral, as is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At June 30, 2010, an additional \$11.8 million of our outstanding letters of credit were to collateralize our insurance programs.

From time to time, we may enter into firm purchase commitments for materials such as copper wire and aluminum wire, among others, which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specified intervals at a fixed price over the term. As of June 30, 2010, we did not have any open purchase commitments.

Many of our customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. In the event that we fail to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under our bond. Our relationship with our sureties is such that we will indemnify the sureties for any expenses they incur in connection with any of the bonds they issue on our behalf. To date, we have not incurred any costs to indemnify our sureties for expenses they incurred on our behalf. As of June 30, 2010, we utilized a combination of cash, accumulated interest thereon and letters of credit totaling \$10.1 million to collateralize our bonding programs.

As of June 30, 2010, our future contractual obligations due by September 30 of each of the following fiscal years include (in thousands) (1):

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	2010	2011	2012	2013	2014	2015	Thereafter	Total
Long-term debt obligations	\$ 416	\$ 817	\$	\$ 10,000	\$	\$	\$	\$ 11,233
Operating lease obligations	\$ 1,529	\$ 6,121	\$ 4,246	\$ 1,960	\$ 1,016	\$ 234	\$ 22	\$ 15,128
Capital lease obligations	\$ 93	\$ 306	\$ 297	\$ 287	\$ 24	\$	\$	\$ 1,007
Total	\$ 2,038	\$ 7,244	\$ 4,543	\$ 12,247	\$ 1,040	\$ 234	\$ 22	\$ 27,368

- (1) The tabular amounts exclude the interest obligations that will be created if the debt and capital lease obligations are outstanding for the periods presented.

Outlook

We anticipate that the combination of cash on hand, cash flows and available capacity under our Revolving Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. We expect that our capital expenditures will not exceed \$1.0 million for the fiscal year ending on September 30, 2010. Our ability to generate cash flow is dependent on our successful finalization of our restructuring efforts and many other factors, including demand for our products and services, existing or pending legislative or regulatory actions related to renewable energy and the purchase of homes, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables and our ability to borrow on our amended Revolving Credit Facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques. Our exposure to significant market risks includes fluctuations in commodity prices for copper, aluminum, steel and fuel. Commodity price risks may impact our results of operations due to the fixed price nature of many of our contracts. We are also exposed to interest rate risk with respect to our outstanding debt obligations, if any, on the Revolving Credit Facility.

ITEM 4. CONTROLS AND PROCEDURES**Disclosure controls and procedures**

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2010 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported

within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the nine months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 10, Commitments and Contingencies *Legal Matters* of this report, which is incorporated herein by reference. We are not aware of any litigation or pending litigation that we believe will have a material impact on our results of operations or our financial position other than those matters that are disclosed in Note 10.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under Item 1.A. *Risk Factors* in our annual report on Form 10-K for the year ended September 30, 2009.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 Second Amended and Restated Certificate of Incorporation of Integrated Electrical Services, Inc. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed on May 12, 2006)
- 3.2 Bylaws of Integrated Electrical Services, Inc. (Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8, filed on May 12, 2006)
- 10.1 Amendment, dated as of April 30, 2010, to Loan and Security Agreement, dated May 12, 2006, by and among Integrated Electrical Services, Inc. and its subsidiaries, Bank of America, N.A. and Wells Fargo Capital Finance LLC. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2010)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Michael J. Caliel, Chief Executive Officer (1)
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Terry L. Freeman, Chief Financial Officer (1)
- 32.1 Section 1350 Certification of Michael J. Caliel, Chief Executive Officer (1)
- 32.2 Section 1350 Certification of Terry L. Freeman, Chief Financial Officer (1)

(1) Filed herewith.

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**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, who has signed this report on behalf of the registrant and as the principal financial officer of the registrant.

INTEGRATED ELECTRICAL SERVICES, INC.

Date: August 9, 2010

By: /s/ Terry L. Freeman
Terry L. Freeman
**Senior Vice President and Chief Financial
Officer**

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