

INTEGRATED ELECTRICAL SERVICES INC

Form 10-Q

May 16, 2011

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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 March 31, 2011

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.)

4801 Woodway Drive, Suite 200-E, Houston, Texas 77056

(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 May 13, 2011 of the issuer's common stock was 14,905,597.

**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
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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 or require additional collateral 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, 2010, 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)

	March 31, 2011 (Unaudited)	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 36,707	\$ 32,924
Accounts receivable:		
Trade, net of allowance of \$2,389 and \$3,360, respectively	82,915	88,252
Retainage	18,397	17,083
Inventories	9,454	12,682
Costs and estimated earnings in excess of billings on uncompleted contracts	15,115	12,566
Prepaid expenses and other current assets	5,031	5,449
Total current assets	167,619	168,956
LONG-TERM RECEIVABLES, net of allowance of \$77 and \$4,069, respectively	315	440
PROPERTY AND EQUIPMENT, net	11,642	19,846
GOODWILL	3,981	3,981
OTHER NON-CURRENT ASSETS, net	8,942	11,882
Total assets	\$ 192,499	\$ 205,105

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 447	\$ 808
Accounts payable and accrued expenses	71,049	67,799
Billings in excess of costs and estimated earnings on uncompleted contracts	14,212	17,109
Total current liabilities	85,708	85,716
LONG-TERM DEBT, net of current maturities	10,418	10,448
LONG-TERM DEFERRED TAX LIABILITY	1,046	1,046
OTHER NON-CURRENT LIABILITIES	6,177	6,314
Total liabilities	103,349	103,524

STOCKHOLDERS EQUITY:

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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 and 15,407,802 shares issued and 14,905,597 and 14,773,904 outstanding, respectively	154	154
Treasury stock, at cost, 502,205 and 633,898 shares, respectively	(6,861)	(13,677)
Additional paid-in capital	165,065	171,510
Accumulated other comprehensive income		(88)
Retained deficit	(69,208)	(56,318)
Total stockholders' equity	89,150	101,581
Total liabilities and stockholders' equity	\$ 192,499	\$ 205,105

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 March 31, 2011 (Unaudited)	Three Months Ended March 31, 2010 (Unaudited)
Revenues	\$ 118,326	\$ 107,619
Cost of services	112,969	94,031
Gross profit	5,357	13,588
Selling, general and administrative expenses	13,333	25,709
(Gain) loss on sale of assets	(87)	13
Restructuring charges		65
Loss from operations	(7,889)	(12,199)
Interest and other:		
Interest expense	576	1,017
Interest income	(24)	(59)
Other income, net	(8)	(107)
Interest and other expense, net	544	851
Loss from operations before income taxes	(8,433)	(13,050)
Provision for income taxes	804	180
Net loss	\$ (9,237)	\$ (13,230)
Loss per share		
Basic	\$ (0.64)	\$ (0.92)
Diluted	\$ (0.64)	\$ (0.92)
Shares used in the computation of loss per share (Note 5):		
Basic	14,481,005	14,390,580
Diluted	14,481,005	14,390,580

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)

	Six Months Ended March 31, 2011 (Unaudited)	Six Months Ended March 31, 2010 (Unaudited)
Revenues	\$ 231,975	\$ 227,867
Cost of services	215,447	194,347
Gross profit	16,528	33,520
Selling, general and administrative expenses	31,354	44,976
Gain on sale of assets	(6,816)	(52)
Asset Impairment	3,551	
Restructuring charges		763
Loss from operations	(11,561)	(12,167)
Interest and other:		
Interest expense	1,175	2,085
Interest income	(49)	(116)
Other income, net	(24)	(226)
Interest and other expense, net	1,102	1,743
Loss from operations before income taxes	(12,663)	(13,910)
Provision for income taxes	227	126
Net loss	\$ (12,890)	\$ (14,036)
Loss per share		
Basic	\$ (0.89)	\$ (0.98)
Diluted	\$ (0.89)	\$ (0.98)
Shares used in the computation of loss per share (Note 5):		
Basic	14,463,996	14,393,328
Diluted	14,463,996	14,393,328

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)

	Six Months Ended March 31, 2011 (Unaudited)	Six Months Ended March 31, 2010 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (12,890)	\$ (14,036)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	(466)	4,984
Deferred financing cost amortization	169	148
Depreciation and amortization	1,980	2,795
Gain on sale of assets	(6,816)	(52)
Asset Impairment	3,551	
Non-cash compensation expense	436	964
Equity in (gains) losses of investment	96	
Changes in operating assets and liabilities		
Accounts receivable	389	21,951
Inventories	(1,640)	699
Costs and estimated earnings in excess of billings	(2,930)	669
Prepaid expenses and other current assets	57	641
Other non-current assets	2,820	229
Accounts payable and accrued expenses	6,782	(19,821)
Billings in excess of costs and estimated earnings	(2,842)	(7,541)
Other non-current liabilities	(140)	(574)
Net cash provided by (used in) operating activities	(11,444)	(8,944)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(755)	(502)
Proceeds from sales of property and equipment	207	159
Proceeds from sales of facilities	16,287	
Distribution from unconsolidated affiliates	(57)	98
Net cash provided by (used in) investing activities	15,682	(245)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt		744
Repayments of debt	(390)	(1,449)
Purchase of treasury stock	(65)	(98)

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Net cash used in financing activities	(455)	(803)
NET DECREASE IN CASH AND CASH EQUIVALENTS	3,783	(9,992)
CASH AND CASH EQUIVALENTS, beginning of period	32,924	64,174
CASH AND CASH EQUIVALENTS, end of period	\$ 36,707	\$ 54,182

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest	\$ 1,009	\$ 2,637
Cash paid for income taxes	\$ 106	\$ 33

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

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**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

1. BUSINESS

Integrated Electrical Services, Inc., a Delaware corporation, was founded in June 1997 to establish a leading national provider of electrical and communication 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. 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 March 31, 2011, 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 2, 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, 2010. Please refer to the *Notes to Consolidated Financial Statements* in our annual report on Form 10-K for the year ended September 30, 2010, when reviewing our interim financial results set forth herein.

RECLASSIFICATIONS

In connection with a 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, our Communications segment has been separated from our Commercial & Industrial segment. For additional information,

please refer to Note 6, Operating Segments to these Condensed Consolidated Financial Statements.

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**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

SALES OF FACILITIES

Sale of Non-Strategic Manufacturing Facility

On November 30, 2010, a subsidiary of the Company (Seller) and Siemens Energy, Inc., a Delaware corporation, (Buyer), executed an Asset Purchase Agreement (the Agreement) providing for the sale of substantially all the assets and assumption of certain liabilities of a non-strategic manufacturing facility engaged in manufacturing and selling fabricated metal buildings housing electrical equipment such as switchgears, motor starters and control systems. In addition, another subsidiary of the Company which is also a party to the Agreement, sold certain real property where the fabrication facilities are located.

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, rights to names which include IES , business records relating to pre-closing matters, which are required by law to be retained by Seller, performed contracts and fulfilled purchase orders, insurance policies, non-assignable permits, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain customer contracts, vendor contracts and financing leases as well as accounts and trade payables arising in the ordinary course of business other than inter-company accounts payable.

The purchase price of \$10,690 was adjusted to reflect variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. The transaction was completed on December 10, 2010 at which time we recognized a gain of \$6,763.

Sale of Non-Core Electrical Distribution Facility

On February 28, 2011, Key Electrical Supply, Inc, a wholly owned subsidiary of the Company (Seller) and Elliot Electric Supply, Inc, a Texas corporation, (Buyer), executed an Asset Purchase Agreement (the Agreement) providing for the sale of substantially all the assets and assumption of certain liabilities of a non-core electrical distribution facility engaged in distributing wiring, lighting, electrical distribution, power control and generators for residential and commercial applications.

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, certain receivables, rights to the Key Electrical Supply, Inc name, business records relating to pre-closing matters, which are required by law to be retained by Seller, insurance policies, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain vendor contracts and financing notes and leases as well as accounts and trade payables arising in the ordinary course of business other than inter-company accounts payable.

The purchase price of \$6,200 was adjusted to reflect variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Buyer and Seller are currently in the process of negotiating other elements of Historical Working Capital. Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. As of March 31, 2011, we recognized a gain of \$50.

LONG-TERM RECEIVABLES

In March 2009, in connection with a construction project entering bankruptcy, we transferred \$3,992 of trade accounts receivable to long-term receivables 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 \$278 associated with this receivable. In March 2010, we reserved the remaining balance. In February 2011, we entered into a \$2,850 settlement in connection with the breach of contract and mechanics lien foreclosure actions. The \$2,850 recovery was recorded in the accompanying consolidated statements of operations as a component of selling, general and administrative expenses. For additional information, please refer to Note 11, Commitments and Contingencies *Legal Matters* to these Condensed Consolidated Financial Statements.

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**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

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 a \$10,000 senior subordinated loan agreement (the Tontine Term Loan). We believe that the carrying value of financial instruments, with the exception of the Tontine Term Loan and our cost method investment in EnerTech Capital Partners II L.P. (EnerTech), 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 \$10,835 based on comparable debt instruments at March 31, 2011. For additional information, please refer to Note 4, Debt and Liquidity *The Tontine Capital Partners Term Loan* to these Condensed Consolidated Financial Statements.

We estimate that the fair value of our investment in EnerTech is \$1,661 at March 31, 2011. For additional information, please refer to Note 8, Securities and Equity Investments *Investment in EnerTech Capital Partners II L.P.* to these Condensed Consolidated Financial Statements.

ASSET IMPAIRMENT

During the first quarter of our 2011 fiscal year, the Company recorded a pretax non-cash asset impairment charge of \$3,551 related to internally-developed capitalized software. The Company ceased use of the software in December, 2010. As a result, the software has a fair value of zero. The charge of \$3,551 was recorded separately in the accompanying consolidated statements of operations as a component of loss from operations.

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 Communications and Commercial & Industrial segments of our business are less subject to seasonal trends, as work in these segments 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.

SUBSEQUENT EVENTS

We have reviewed subsequent events through the date of filing.

2. CONTROLLING SHAREHOLDER

On April 30, 2010, we prepaid \$15,000 of the original \$25,000 principal outstanding on the Tontine Term Loan; accordingly \$10,000 remains outstanding under the Tontine Term Loan.

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On February 11, 2011, Tontine, filed an amended Schedule 13D. 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 Revolving Credit Facility (as defined below), bonding agreements with our sureties and employment contracts with certain officers and employees of the Company.

3. STRATEGIC ACTIONS**2011 Restructuring Plan**

During the second quarter of our 2011 fiscal year, the Company has determined that certain geographic areas of our Commercial & Industrial operations will be either sold or closed during the next six to twelve months (the 2011 Restructuring Plan). This is one part of management's overall plan to return the Company to profitability. The operations directly affected by this decision are in several locations throughout the country, including Iowa, Florida and Nevada. These locations were selected due to current business prospects and the extended time frame needed to return these operations to a profitable position. Currently we are in the initial stages of the plan, and we expect that costs could range from \$4,500 to \$5,500 in aggregate. Costs associated with this action would include equipment and facility lease termination expenses, consulting expenses and severance costs for employees. Should the Company be successful in the sale of these facilities, these costs could be reduced. For the three and six months ended March 31, 2011; these facilities had combined revenues and net losses as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenues	\$ 10,807	\$ 8,840
Net operating losses	\$ (2,173)	\$ (4,276)