INTEGRATED ELECTRICAL SERVICES INC
Form 10-Q
March 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 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	**76-0542208**
(State or other jurisdiction of incorporation or organization)	**(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 x 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 x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	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 x

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 x No ¨

On March 30, 2012, there were 15,013,840 shares of common stock outstanding.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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PART I

DEFINITIONS

In this quarterly report on Form 10-Q, the words IES , the Company , the Registrant , we , our , ours and us refer to Integrated Electrical S
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 the Company s actual future outcomes 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;

accidents resulting from the physical hazards associated with our work and the potential for 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;

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, long-lived assets and other investment impairments;

uncertainties inherent in estimating future operating results, including revenues, operating income or cash flow;

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- 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 tax benefits 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;
- 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 and financing and surety arrangements; and
- Additional closures or sales of facilities in our Commercial & Industrial segment could result in significant future charges and a significant disruption of our operations.

You should understand that the foregoing, as well as other risk factors discussed in our annual report on Form 10-K/A for the year ended September 30, 2011, could cause future outcomes to differ materially from those experienced previously or those expressed in such forward-looking statements. 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/A, 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

Consolidated Balance Sheets

(In Thousands, Except Share Information)

	December 31, 2011 (Unaudited)	September 30, 2011 Restated
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,318	$ 35,577
Restricted cash	8,812	
Accounts receivable:		
Trade, net of allowance of $2,146 and $2,645, respectively	78,365	85,728
Retainage	16,118	17,944
Inventories	8,191	8,443
Costs and estimated earnings in excess of billings on uncompleted contracts	7,805	9,963
Prepaid expenses and other current assets	6,766	2,840
Total current assets	143,375	160,495
LONG-TERM RECEIVABLE, net of allowance of $53 and $4,051, respectively	206	200
PROPERTY AND EQUIPMENT, net	8,646	8,016
GOODWILL	4,446	4,446
OTHER NON-CURRENT ASSETS, net	5,289	7,087
Total assets	$ 161,962	$ 180,244
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 2,168	$ 209
Accounts payable and accrued expenses	63,099	78,980
Billings in excess of costs and estimated earnings on uncompleted contracts	18,260	19,585
Total current liabilities	83,527	98,774
LONG-TERM DEBT, net of current maturities	10,228	10,289
LONG-TERM DEFERRED TAX LIABILITY	284	284
OTHER NON-CURRENT LIABILITIES	7,295	6,596
Total liabilities	101,334	115,943
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 and 15,407,802 shares issued and 15,013,840 and 14,938,071 outstanding, respectively	154	154
Treasury stock, at cost, 393,962 and 451,329 shares, respectively	(4,475)	(5,595)
Additional paid-in capital	163,194	164,262
Retained deficit	(98,245)	(94,520)
Total stockholders equity	60,628	64,301

Total liabilities and stockholders equity	$ 161,962	$ 180,244

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(In Thousands, Except Share Information)

	Three Months Ended December 31, 2011	2010 Restated
Revenues	$ 115,293	$ 109,811
Cost of services	104,384	98,753
Gross profit	10,909	11,058
Selling, general and administrative expenses	13,375	18,652
Gain on sale of assets	17	(6,729)
Asset Impairment		3,551
Restructuring charges	600	
Loss from operations	(3,083)	(4,416)
Interest and other (income) expense:		
Interest expense	622	599
Interest income	(85)	(25)
Other (income) expense, net	(65)	(15)
Interest and other expense, net	472	559
Loss from operations before income taxes	(3,555)	(4,975)
Provision (benefit) for income taxes	168	(676)
Net loss	$ (3,723)	$ (4,299)
(Loss) per share:		
Basic	$ (0.26)	$ (0.30)
Diluted	$ (0.26)	$ (0.30)
Shares used in the computation of loss per share		
Basic	14,569,089	14,447,841
Diluted	14,569,089	14,447,841

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In Thousands)

	Three Months Ended December 31, 2011 (Unaudited)	2010 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,723)	$ (4,299)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	(25)	(16)
Deferred financing cost amortization	21	84
Depreciation and amortization	522	1,856
Gain on sale of business units		(6,729)
Non-cash compensation expense	145	170
Asset impairment		3,551
Equity in losses of investment		96
Changes in operating assets and liabilities		
Accounts receivable	7,412	5,457
Inventories	252	(860)
Costs and estimated earnings in excess of billings	2,158	(979)
Prepaid expenses and other current assets	(2,114)	473
Other non-current assets	(50)	286
Accounts payable and accrued expenses	(12,401)	(11,958)
Billings in excess of costs and estimated earnings	(1,325)	(2,091)
Other non-current liabilities	127	(125)
Net cash (used in) provided by operating activities	(9,001)	(15,084)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(302)	(391)
Proceeds from sales of property and equipment	11	
Proceeds from sales of facilities		9,859
Distribution from unconsolidated affiliates		(57)
Changes in restricted cash	(8,812)	
Net cash (used in) provided by continuing operations	(9,103)	9,411
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of debt	(61)	(242)
Purchase of treasury stock	(94)	(63)
Payments for debt issuance costs		
Net cash used in financing activities	(155)	(305)
NET DECREASE IN CASH EQUIVALENTS	(18,259)	(5,978)
CASH AND CASH EQUIVALENTS, beginning of period	35,577	32,924
CASH AND CASH EQUIVALENTS, end of period	$ 17,318	$ 26,946
SUPPLEMENTAL DISCLOSURE OF CASH FLOW	2011	2010

INFORMATION:		
Cash paid for interest	$ 277	$ 513
Cash paid for income taxes	$ 48	$ 30

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

1. BUSINESS

Description of the Business

Integrated Electrical Services, Inc., a Delaware corporation, is a leading national provider of electrical infrastructure services to the communications, residential, commercial and industrial industries. Originally established as IES in 1997, we provide services from 57 locations serving the continental United States as of December 31, 2011. Our operations are organized into three business segments, based upon the nature of its products and services:

Communications Nationwide provider of products and services for mission critical infrastructure, such as data centers, of large corporations.

Residential Regional provider of electrical installation services for single-family housing and multi-family apartment complexes.

Commercial & Industrial Provider of electrical design, construction, and maintenance services to the commercial and industrial markets in various regional markets and nationwide in certain areas of expertise, such as the power infrastructure market.

Sale of Non-Strategic Manufacturing Facility

On November 30, 2010, a subsidiary of the Company sold substantially all the assets and 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, to Siemens Energy, Inc. As part of this transaction, Siemens Energy, Inc. also acquired certain real property where the fabrication facilities are located from another subsidiary of the Company. The purchase price of $10,086 was adjusted to reflect working capital variances. 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, sold substantially all the assets and 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 to Elliot Electric Supply, Inc. The purchase price of $6,676 was adjusted to reflect working capital variances. The loss on this transaction was immaterial.

Controlling Shareholder

At December 31, 2011, Tontine Capital Partners, L.P. and its affiliates (collectively, 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 in the notes to these 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

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

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 of Form 10-K/A for the year ended September 30, 2011. Please refer to the *Notes to Consolidated Financial Statements* in our annual report on Form 10-K/A for the year ended September 30, 2011, when reviewing our interim financial results set forth herein.

Revenue Recognition

As of December, 31, 2011 the Company had revenue totaling $1,098 associated with one contract claim. We recognize revenue associated with unapproved change orders and claims to the extent that related costs have been incurred, recovery is probable and the value can be reliably estimated.

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, a note payable issued to finance an insurance policy, 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, 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 $10,554 based on comparable debt instruments at December 31, 2011. For additional information, please refer to Note 4, Debt *The Tontine Term Loan* of this report.

We estimate that the fair value of our investment in EnerTech is $1,049 at December 31, 2011. For additional information, please refer to Note 8, Securities and Equity Investments *Investment in EnerTech.*

Asset Impairment

During the three months ended December 31, 2010, the Company ceased use of certain internally-developed software. As a result, the software has a fair value of zero. The net 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.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. We have restricted cash to collateralize our letters of credit.

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

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

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

On January 20, 2012, the Senior Vice President and Chief Financial Officer retired from the company. The company will incur approximately $430 in related severance expense during the second quarter of 2012.

2. CONTROLLING SHAREHOLDER

As of December 31, 2011, $10,000 remains outstanding on the Tontine Term Loan.

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 $40,000 Revolving Credit Facility, bonding agreements with our sureties and certain employment contracts with certain officers and employees of the Company.

Tontine Capital Partners, L.P. and its affiliates own the majority of our common stock. As a significant stakeholder, Tontine provides strategic, general corporate, operational, organizational and financial advice to our board of directors and management. Although such advice may be considered by the board and management, neither the board nor management is under any legal obligation to follow such advice.

3. STRATEGIC ACTIONS

The 2011 Restructuring Plan

In the second quarter of our 2011 fiscal year, we began a restructuring program (the 2011 Restructuring Plan) that was designed to consolidate operations within our Commercial & Industrial business. Pursuant to the 2011 Restructuring Plan, during the next three to nine months, we will finalize the sale or closure of certain underperforming facilities within our Commercial & Industrial operations. The 2011 Restructuring Plan is a key element of our commitment to return the Company to profitability.

The facilities directly affected by the 2011 Restructuring Plan are in several locations throughout the country, including Arizona, Florida, Iowa, Massachusetts, Louisiana, Nevada and Texas. These facilities were selected due to current business prospects and the extended time frame needed to return the facilities to a profitable position. We expect that closure costs could range from $4,500 to $5,500 in the aggregate. Closure costs associated with the 2011 Restructuring Plan include equipment and facility lease termination expenses, incremental management consulting expenses and severance costs for employees. The Company is in the process of winding down these facilities. As part of our restructuring charges within our Commercial & Industrial segment we recognized $69 in severance costs, $483 in consulting services, and $48 in costs related to lease terminations during the three months ended December 31, 2011.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

The following table summarizes the activities related to our restructuring activities by component:

	Severance Charges	Consulting Charges	Lease Termination & Other Charges	Total
Restructuring liability at September 30, 2011	$ 1,081	$ 336	$ 790	$ 2,207
Restructuring charges incurred	69	483	48	600
Cash payments made	(391)	(776)	(154)	(1,321)
Restructuring liability at September 30, 2012	$ 759	$ 43	$ 684	$ 1,486

Additional Facility Closing

During the first quarter of fiscal 2012, the Company determined the underperforming Baltimore facility within its Commercial & Industrial and Communications divisions would be either sold or closed over the next three to six months. This closing is a key element of management s overall plan to return the Company to profitability. The Baltimore location was selected based upon current businesses performance and the extended time frame needed to return the operation to profitability. We expect that closure costs could range from $340 to $480 in the aggregate.

4. DEBT

Debt consists of the following:

	December 31, 2011	September 30, 2011
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	$ 10,000	$ 10,000
Insurance Financing Agreements	1,947	
Capital leases and other	449	498
Total debt	12,396	10,498
Less Short-term debt and current maturities of long-term debt	(2,168)	(209)
Total long-term debt	$ 10,228	$ 10,289

Future payments on debt at December 31, 2011 are as follows*:*

	Capital Leases and Other	Insurance Financing	Term Debt	Total
2012	$ 242	$ 1,947	$	$ 2,189
2013	317		10,000	10,317
2014	26			26

2015				
2016				
Thereafter				
Less: Imputed Interest	(136)			(136)
Total	$ 449	$ 1,947	$ 10,000	$ 12,396

For the three months ended December 31, 2011 and 2010, we incurred interest expense of $622 and $599, respectively.

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

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

institutions. On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement pursuant to which the maturity date was extended to May 31, 2012. In connection with the amendment, we incurred an amendment fee of $200, which is being amortized over 24 months.

On December 15, 2011, 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 was reduced to $40,000 and the maturity date was extended to November 12, 2012. Further, we were required to cash collateralize all of our letters of credit issued by the banks. The cash collateral is added to the borrowing base calculation at 100% through out the term of the agreement. The Revolving Credit Facility requires 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 $25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least $25,000 for a period of 60 consecutive days. Additionally, if there are any loans outstanding on or after the April 30, 2012, the Company s EBITDA for the period from October 2011 through March 2012, may not exceed a negative $2,500 and we will be required to have a cumulative fixed charge coverage ratio of at least 1.0:1.0 at all times beginning April 1, 2012 to maintain any borrowings under the agreement. The measurement period for this additional test for borrowings begins with the monthly operating results for April 2012 and adds the monthly operating results for each month thereafter to determine the cumulative test during such time as revolving loans are outstanding. Failure to meet this performance test will result in an immediate event of default. The amended Agreement also calls for cost of borrowings of 4.0% over LIBOR per annum. Cost for letters of credit are the same as borrowings and also include a 25 basis point fronting fee. All other terms and conditions remain unchanged. In connection with the amendment, we incurred an amendment fee of $60 which, together with the unamortized balance of the prior amendment, is being amortized using the straight line method through November 12, 2012.

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.

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 inventories. Under the terms of the Revolving Credit Facility in effect as of December 31, 2011, 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 $60,000	LIBOR plus 3.00% or Base Rate plus 1.00%	3.00% plus 0.25% fronting fee
Greater than $40,000 and less than $60,000	LIBOR plus 3.25% or Base Rate plus 1.25%	3.25% plus 0.25% fronting fee
Less than or equal to $40,000	LIBOR plus 3.50% or Base Rate plus 1.50%	3.50% plus 0.25% fronting fee

At December 31, 2011, we had $21,384 available to us under the Revolving Credit Facility, with no outstanding borrowings. We had $8,812 in outstanding letters of credit which were fully collateralized with restricted cash.

At December 31, 2011, our Total Liquidity was $47,513. For the three months ended December 31, 2011, we paid no interest for loans under the Revolving Credit Facility and had a weighted average interest rate, including fronting fees, of 3.50% for letters of credit. In addition, we are charged monthly in arrears (1) an unused commitment fee of 0.50%, and (2) certain other fees and charges as specified in the Loan and Security Agreement, as amended.

As of December 31, 2011, 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 $25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

hand plus availability has been at least $25,000 for a period of 60 consecutive days. As of December 31, 2011, our Total Liquidity was in excess of $25,000 for the prior 60 day period. Had our Total Liquidity been less than $25,000 at December 31, 2011, we would not have met the 1.0:1.0 fixed charge coverage ratio test, had it been applicable.

The Tontine Term Loan

On December 12, 2007, we entered into the Tontine Term Loan, a $25,000 senior subordinated loan agreement, with Tontine. 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 $15,000 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. 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 the Revolving Credit Facility. 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.

5. PER SHARE INFORMATION

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 following table reconciles the components of the basic and diluted earnings (loss) per share for the three months ended December 31, 2011 and 2010, (in thousands, except share information):

	Three Months Ended December 31,	
	2011	2010
Numerator:		
Net income (loss) attributable to common shareholders	$ (3,723)	$ (4,299)
Net income (loss) attributable to restricted shareholders		
Net income (loss)	$ (3,723)	$ (4,299)
Denominator:		
Weighted average common shares outstanding basic	14,569,089	14,447,357
Effect of dilutive stock options and non-vested restricted stock		
Weighted average common and common equivalent shares outstanding diluted	14,569,089	14,447,357
Basic loss per share	$ (0.26)	$ (0.30)
Diluted loss per share	$ (0.26)	$ (0.30)

For the three months ended December 31, 2011 and 2010, 20,000 and 158,500 stock options, respectively, were excluded from the computation of fully diluted earnings per share because the exercise prices of the options were greater than the average price of our common stock. For the three months ended December 31, 2011 and 2010, 388,860 and 258,600 shares, respectively, of restricted stock were excluded from the computation of fully diluted earnings per share because we reported a loss from continuing operations.

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6. OPERATING SEGMENTS

We manage and measure performance of our business in three distinct operating segments: Communications, Residential and Commercial & Industrial. 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. The Communications segment consists of low voltage installation, design, planning and maintenance for mission critical infrastructure such as data centers. The Residential segment consists of electrical installation, replacement and renovation services in single-family, condominium, townhouse and low-rise multifamily housing units.

The Commercial & Industrial segment provides electrical 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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on income from operations of the respective business units prior to the allocation of Corporate office expenses. Transactions between segments are eliminated in consolidation. Our Corporate office provides general and administrative as well as support services to our three operating segments. Management allocates costs between segments for selling, general and administrative expenses and depreciation expense.

Segment information for the three months ended December 31, 2011 and 2010 is as follows:

	$000,000	$000,000	$000,000	$000,000	$000,000
	Three Months Ended December 31, 2011				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 26,102	$ 29,272	$ 59,919	$	$ 115,293
Cost of services	22,764	24,626	56,994		104,384
Gross profit	3,338	4,646	2,925		10,909
Selling, general and administrative	2,522	3,942	3,082	3,829	13,375
Corporate allocations	474	472	1,423	(2,369)	
Loss (gain) on sale of assets	11	4	2		17
Restructuring charge			582	18	600
Income (loss) from operations	$ 331	$ 228	$ (2,164)	$ (1,478)	$ (3,083)
Other data:					
Depreciation and amortization expense	$ 65	$ 82	$ 88	$ 287	$ 522
Capital expenditures	$ 42	$ 260	$	$ 861	$ 1,163
Total assets	$ 17,899	$ 23,095	$ 73,383	$ 47,585	$ 161,962

Three Months Ended December 31, 2010 as Restated

	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 19,921	$ 26,045	$ 63,845	$	$ 109,811
Cost of services	16,716	21,508	60,529		98,753
Gross profit	3,205	4,537	3,316		11,058
Selling, general and administrative	1,757	4,195	5,297	7,403	18,652
Corporate allocations	550	588	2,146	(3,284)	
(Gain) Loss on sale of assets		(22)	(6,805)	98	(6,729)

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Asset impairment				3,551	3,551
Income (loss) from operations	$ 898	$ (224)	$ 2,678	$ (7,768)	$ (4,416)
Other data:					
Depreciation and amortization expense	$ 26	$ 99	$ 235	$ 1,546	$ 1,906
Capital expenditures	$	$ 27	$ 226	$ 138	$ 391
Total assets	$ 20,486	$ 27,680	$ 82,401	$ 56,624	$ 187,191

7. STOCKHOLDERS EQUITY

The 2006 Equity Incentive Plan became effective on May 12, 2006 (as amended, the 2006 Equity Incentive Plan). The 2006 Equity Incentive Plan provides for grants of stock options as well as grants of stock, including restricted stock. We have approximately 1.0 million shares of common stock authorized for issuance under the 2006 Equity Incentive Plan.

On May 12, 2008, 10,555 shares of outstanding common stock that were reserved for issuance upon exchange of previously issued shares pursuant to our Plan were cancelled.

Treasury Stock

During the three months ended December 31, 2011, we repurchased 34,578 common shares from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Equity Incentive Plan, and 8,055 unvested shares were forfeited by former employees and returned to treasury stock. We issued 100,000 shares out of treasury stock under our share-based compensation programs.

During the three months ended December 31, 2010, we repurchased 18,153 common shares from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Equity Incentive Plan and 27,675 unvested shares were forfeited by former employees and returned to treasury stock. We issued 4,000 shares out of treasury stock under our share-based compensation programs.

Restricted Stock

Restricted Stock Awards:

Fiscal Year	Shares Granted	Weighted Average Fair Value at Date of Grant	Vested	Forfeitures	Shares Outstanding	Expense recognized through December 31, 2011
2006	384,850	$ 24.78	258,347	126,503		$ 6,402
2006	25,000	$ 17.36	25,000			$ 434
2007	20,000	$ 25.08	20,000			$ 502
2007	4,000	$ 26.48	4,000			$ 106
2008	101,650	$ 19.17	85,750	15,900		$ 1,779
2009	185,100	$ 8.71	146,400	38,700		$ 1,344
2010	225,486	$ 3.64	42,701	68,585	114,200	$ 404

2011	320,000	$	3.39	86,288	59,052	174,660	$ 248
2012	100,000	$	2.00			100,000	$ 22

During the three months ended December 31, 2011 and 2010, we recognized $142, and $153, respectively, in compensation expense related to these restricted stock awards. At December 31, 2011, the unamortized compensation cost related to outstanding unvested restricted stock was $923. We expect to recognize $426 of this unamortized compensation expense during the remaining nine months of our 2012 fiscal year and $497 thereafter. A summary of restricted stock awards for the years ended September 30, 2012, 2011 and 2010 is provided in the table below:

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	Years Ended September 30,		
	2012	2011	2010
Unvested at beginning of year	376,200	352,086	230,716
Granted	100,000	320,000	225,486
Vested	(79,285)	(165,628)	(66,116)
Forfeited	(8,055)	(130,258)	(38,000)
Unvested at end of year	388,860	376,200	352,086

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

Phantom Stock Units

We granted 24,632 and 26,191 shares of performance-based phantom stock units (PSUs) to the members of the Board of Directors in 2011 and 2010, respectively. These PSU s will be paid via unrestricted stock grants to each director upon his departure from the Board of Directors.

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Stock Options

We utilized a binomial option pricing model to measure the fair value of stock options granted. Our determination of 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 not considered under the binomial option pricing model that we utilize. The assumptions used in the fair value method calculation for the years ended September 30, 2012, 2011 and 2010 are disclosed in the following table:

	Years Ended December 31,		
	2012	2011	2010
Weighted average value per option granted during the period	$ N/A	2.05	$ N/A
Dividends (1)	$ N/A		$ N/A
Stock price volatility (2)	N/A	69.9%	N/A
Risk-free rate of return	N/A	1.9%	N/A
Option term	N/A	10.0 years	N/A
Expected life	N/A	6.0 years	N/A
Forfeiture rate (3)	N/A	0.0%	N/A

(1) We do not currently pay dividends on our common stock.
(2) Based upon the Company s historical volatility.
(3) The forfeiture rate for these options was assumed on the date of grant to be zero based on the limited number of employees who have been awarded stock options.

Stock-based compensation expense recognized during the period is based on the value of the portion of the share-based payment awards that is ultimately expected to vest during the period. As stock-based compensation expense recognized in the Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. We estimate our forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes activity under our stock option plans.

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2008	161,000	$ 26.66
Options granted	7,500	17.09
Exercised		
Forfeited and Cancelled	(10,000)	41.61
Outstanding, September 30, 2009	158,500	$ 18.66
Options granted		
Exercised		
Forfeited and Cancelled		

Outstanding, September 30, 2010	158,500	$	18.66
Options granted	20,000		3.24
Exercised			
Forfeited and Cancelled	(158,500)		18.66
Outstanding, September 30, 2011	20,000	$	3.24
Options granted			
Exercised			
Forfeited and Cancelled			
Outstanding, December 31, 2011	20,000	$	3.24

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The following table summarizes options outstanding and exercisable at December 31, 2011:

Range of Exercise Prices	Outstanding as of December 31, 2011	Remaining Contractual Life in Years	Weighted-Average Exercise Price	Exercisable as of December 31, 2011	Weighted-Average Exercise Price
$ 3.24	20,000	9.55	$ 3.24		$ 3.24
	20,000	9.55	$ 3.24		$ 3.24

All of our outstanding options vest over a three-year period at a rate of one-third per year upon the annual anniversary date of the grant and expire ten years from the grant date if they are not exercised. Upon exercise of stock options, it is our policy to first issue shares from treasury stock, then to issue new shares. Unexercised stock options expire by July 2021.

8. SECURITIES AND EQUITY INVESTMENTS

Investment in EnerTech Capital Partners II L.P.

Our investment in EnerTech was approximately 2% of the overall ownership in EnerTech at December 31, 2011 and September 30, 2011. As such, we accounted for this investment using the cost method of accounting.

EnerTech s investment portfolio periodically results in unrealized losses reflecting a possible, other-than-temporary impairment of our investment. If the 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 December 31, 2011 and September 30, 2011 was $1,003 and $1,003, respectively, and is currently recorded as a component of Other Non-Current Assets in our Consolidated Balance Sheets. 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 December 31, 2011 and September 30, 2011:

	December 31, 2011	September 30, 2011
Carrying value	$ 1,003	$ 1,003
Unrealized gains (losses)	46	
Fair value	$ 1,049	$ 1,003

On December 31, 2011, EnerTech s general partner, with the consent of the fund s investors, extended the fund through December 31, 2012. 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, 2013 with the consent of the fund s valuation committee.

9. EMPLOYEE BENEFIT PLANS

401(k) Plan

In November 1998, we established the Integrated Electrical Services, Inc. 401(k) Retirement Savings Plan (the 401(k) Plan). All full-time IES employees are eligible to participate on the first day of the month subsequent to completing thirty days of service and attaining age twenty-one. Participants become vested in our matching contributions following three years of service.

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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. We made no contributions to the 401(k) plan for the three months ended December 31, 2011 and 2010, respectively.

Executive Deferred Compensation Plan

Under the Executive Deferred Compensation 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. We made no contributions to the Executive Deferred Compensation Plan for the three months ended December 31, 2011 and 2010, respectively.

Post Retirement Benefit Plans

Certain individuals at one of the Company s locations are entitled to receive fixed annual payments that reach a maximum amount, as specified in the related agreements, for a ten year period following retirement or, in some cases, the attainment of 62 years of age. We recognize the unfunded status of the plan as part of current liabilities and non-current liabilities in our Consolidated Balance Sheet. Benefits vest 50% after ten years of service, which increases by 10% per annum until benefits are fully vested after 15 years of service. We had an unfunded benefit liability of $791 and $576 recorded as of December 31, 2011 and 2010, respectively.

10. FAIR VALUE MEASUREMENTS

Fair Value Measurement Accounting

This disclosure relates to 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, we provide enhanced disclosure of the valuation techniques and inputs used in the fair value measurements within Level 2 and Level 3.

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 December 31, 2011 are summarized in the following table by the type of inputs applicable to the fair value measurements:

Total Fair Value

		Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Money market accounts	$ 8,813	$ 8,813		
Executive Savings Plan assets	508	508		
Executive Savings Plan liabilities	(580)	(580)		