INTEGRATED ELECTRICAL SERVICES INC
Form 10-Q/A
December 14, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
Amendment No. 1

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

For the Quarterly Period Ended March 31, 2009

OR

o **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.)

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 þ No o
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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
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 þ No o
The number of shares outstanding as of May 15, 2009 of the issuer s common stock was 14,602,204.

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Explanatory Paragraph

The purpose of this Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q of Integrated Electrical Services, Inc. (we , us , our , or the Company) is to amend our Quarterly Report on Form 10-Q for the quarter en March 31, 2009 filed on May 18, 2009 to correct the accounting treatment previously accorded certain transactions and to restate our consolidated balance sheets as of March 31, 2009 and our consolidated statements of operations, stockholders equity, and cash flows for the three and six months ended March 31, 2009.

These corrections primarily included recording of additional charges for certain accruals, medical claims and certain other expenses, and resultant tax effects, that should have been accrued in previous quarters.

Additional information on the effect of the correction to our financial statements as a result of this restatement is contained in Note 9 Restatement of Financial Statements in this report

In addition, the Company has amended Item 4, Controls and Procedures, to update the disclosure regarding disclosure controls and procedures and internal control over financial reporting.

As a result of the restatement, the Company has determined it to be necessary to amend the Original Form 10-Q. This Amendment No. 1 amends and restates in its entirety Part I, Items 1, 2 and 4 and Part II, Item 6 of the Original Form 10-Q. This Amendment No. 1 continues to reflect circumstances as of the date of the filing of the Original Form 10-Q and does not reflect events occurring after the filing of the Original Form 10-Q, or modify or update those disclosures in any way, except as required to reflect the effects of the restatement as described in Note 9 to the accompanying interim consolidated financial statements.

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
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DEFINITIONS

In Amendment No. 1 to this quarterly report on Form 10-Q/A, the words IES , the Company , we , our , ours , refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our subsidiaries.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Amendment No. 1 to our quarterly report on Form 10-Q/A 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;
- our ability to successfully manage construction projects;
- errors in estimating revenue and progress to date on percentage-of-completion contracts;
- failure to recognize revenue from work that is yet to be performed on uncompleted contracts and/or from work that has been contracted but not started due to changes in contractual commitments;
- 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 related to our work and potential for liabilities associated with vehicle accidents;
- success in transferring, renewing and obtaining electrical and construction licenses after the recent consolidation of our divisions;
- the possibility that our restructuring program will not be successfully executed;
- 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 that 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;

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

You should understand that the foregoing, as well as other risk factors discussed in Amendment No. 1 to our annual report on Form 10-K/A for the year ended September 30, 2008, could cause future outcomes to differ materially from those experienced previously or from those expressed in this quarterly report and our aforementioned Amendment No. 1 to our annual report on Form 10-K/A. 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 Amendment No. 1 to our quarterly report on Form 10-Q/A 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, 2009 (Unaudited) (Restated)	September 30, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 51,569	$ 64,709
Accounts receivable:		
Trade, net of allowance of $2,641 and $3,556, respectively	127,089	132,273
Retainage	30,114	30,833
Inventories	10,623	12,856
Costs and estimated earnings in excess of billings on uncompleted contracts	15,259	14,743
Prepaid expenses and other current assets	7,769	6,728
Assets from discontinued operations	392	1,967
Total current assets	242,815	264,109
LONG-TERM RECEIVABLE, net of allowance of $278	3,730	
PROPERTY AND EQUIPMENT, net	24,834	26,123
GOODWILL	4,870	4,892
OTHER NON-CURRENT ASSETS, net	20,841	25,414
Total assets	$ 297,090	$ 320,538
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 2,503	$ 2,905
Accounts payable and accrued expenses	77,672	99,860
Billings in excess of costs and estimated earnings on uncompleted contracts	36,487	33,711
Liabilities from discontinued operations	319	504
Total current liabilities	116,981	136,980
LONG-TERM DEBT, net of current maturities	26,385	26,739
OTHER NON-CURRENT LIABILITIES	11,894	10,584
Total liabilities	155,260	174,303
COMMITMENTS AND CONTINGENCIES		
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 14,612,239 and 14,753,779 outstanding, respectively	154	154
Treasury stock, at cost, 795,563 and 654,023 shares, respectively	(14,227)	(11,591)
Additional paid-in capital	169,563	170,023
Retained deficit	(13,660)	(12,351)
Total stockholders equity	141,830	146,235
Total liabilities and stockholders equity	$ 297,090	$ 320,538

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, 2009 (Unaudited) (Restated)	Three Months Ended March 31, 2008 (Unaudited)
Revenues	$ 167,305	$ 195,659
Cost of services	137,410	164,822
Gross profit	29,895	30,837
Selling, general and administrative expenses	27,300	27,486
Gain on sale of assets	(75)	(7)
Restructuring charges	2,256	2,098
Income (loss) from operations	414	1,260
Interest and other (income) expense:		
Interest expense	1,105	1,918
Interest income	(113)	(441)
Other (income) expense, net	(413)	(896)
Interest and other expense, net	579	581
Income (loss) from continuing operations before income taxes	(165)	679
Provision (benefit) for income taxes	(28)	453
Income (loss) from continuing operations	(137)	226
Discontinued operations (Note 2)		
Loss from discontinued operations	(6)	(366)
Benefit for income taxes	(1)	(179)
Net loss from discontinued operations	(5)	(187)
Net income (loss)	$ (142)	$ 39
Basic earnings (loss) per share:		
Continuing operations	$ (0.01)	$ 0.02
Discontinued operations	$ (0.00)	$ (0.02)
Total	$ (0.01)	$ 0.00
Diluted earnings (loss) per share:		
Continuing operations	$ (0.01)	$ 0.02

Discontinued operations	$	(0.00)	$	(0.02)
Total	$	(0.01)	$	0.00
Shares used in the computation of earnings (loss) per share (Note 4):				
Basic		14,322,439		15,015,717
Diluted		14,322,439		15,021,520

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, 2009 (Unaudited) (Restated)		Six Months Ended March 31, 2008 (Unaudited)	
Revenues	$	340,412	$	392,779
Cost of services		282,540		328,907
Gross profit		57,872		63,872
Selling, general and administrative expenses		55,767		57,889
Gain on sale of assets		(178)		(24)
Restructuring charges		3,141		3,393
Income (loss) from operations		(858)		2,614
Interest and other (income) expense:				
Interest expense		2,090		6,151
Interest income		(273)		(1,545)
Other (income) expense, net		(473)		(1,323)
Interest and other expense, net		1,344		3,283
Loss from continuing operations before income taxes		(2,202)		(669)
Provision (benefit) for income taxes		(913)		25
Net loss from continuing operations		(1,289)		(694)
Discontinued operations (Note 2)				
Loss from discontinued operations		(35)		(114)
Benefit for income taxes		(15)		(50)
Net loss from discontinued operations		(20)		(64)
Net loss	$	(1,309)	$	(758)
Basic earnings (loss) per share:				
Continuing operations	$	(0.09)	$	(0.05)
Discontinued operations	$	(0.00)	$	(0.00)
Total	$	(0.09)	$	(0.05)
Diluted earnings (loss) per share:				
Continuing operations	$	(0.09)	$	(0.05)

Discontinued operations	$	(0.00)	$	(0.00)
Total	$	(0.09)	$	(0.05)
Shares used in the computation of earnings (loss) per share (Note 4):				
Basic		14,320,588		15,054,431
Diluted		14,320,588		15,054,431

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, 2009 (Unaudited) (Restated)	Six Months Ended March 31, 2008 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,309)	$ (758)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net (income) loss from discontinued operations	20	64
Bad debt expense	617	749
Deferred financing cost amortization	128	1,400
Depreciation and amortization	4,028	4,586
Gain on sale of assets	(178)	(24)
Non-cash restructuring write-off		131
Non-cash compensation expense	1,128	1,859
Paid in kind interest	678	
Equity in (gains) losses of investment	37	(550)
Goodwill adjustment under SOP 90-1	22	
Changes in operating assets and liabilities, net of effect of discontinued operations:		
Accounts receivable	1,708	(10,213)
Inventories	2,234	(3,103)
Costs and estimated earnings in excess of billings on uncompleted contracts	(516)	647
Prepaid expenses and other current assets	(557)	1,544
Other non-current assets	4,531	(952)
Accounts payable and accrued expenses	(22,396)	(8,212)
Billings in excess of costs and estimated earnings on uncompleted contracts	2,776	2,343
Other non-current liabilities	1,311	228
Net cash used in continuing operations	(5,738)	(10,261)
Net cash provided by discontinued operations	1,333	2,256
Net cash used in operating activities	(4,405)	(8,005)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,303)	(6,138)
Proceeds from sales of property and equipment	226	218
Investment in unconsolidated affiliate	(2,000)	
Distribution from unconsolidated affiliate		488
Net cash used in investing activities of continuing operations	(3,077)	(5,432)

Net cash provided by investing activities of discontinued operations				7
Net cash used in investing activities		(3,077)		(5,425)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of debt				25,000
Repayments of debt		(1,434)		(45,467)
Payments for debt issuance costs				(500)
Acquisition of treasury stock		(4,224)		(3,412)
Net cash used in financing activities		(5,658)		(24,379)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(13,140)		(37,809)
CASH AND CASH EQUIVALENTS, beginning of period		64,709		69,676
CASH AND CASH EQUIVALENTS, end of period	$	51,569	$	31,867
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	1,382	$	1,902
Cash paid for income taxes	$	380	$	260

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
MARCH 31, 2009
(UNAUDITED)

1. BUSINESS

Integrated Electrical Services, Inc., a Delaware corporation, was founded in June 1997 to create a leading national provider of electrical services, focusing primarily on the commercial, industrial, residential, low voltage and service and maintenance markets. The words IES , the Company , we , our , and us refer to Integrated Electrical Service and, except as otherwise specified herein, to our wholly-owned subsidiaries.

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. 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 Amendment No. 1 to our annual report on Form 10-K/A for the year ended September 30, 2008, with the exception of the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* as described in the paragraphs that follow. Please refer to the Notes to Amendment No. 1 to our annual report on Form 10-K/A for the year ended September 30, 2008, when reviewing our interim financial results set forth herein.

On October 1, 2008, we adopted the provisions of SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 enhances the guidance for using fair value to measure assets and liabilities. In addition, SFAS 157 expands information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. This statement applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, but it does not expand the use of fair value in any new circumstances. On February 12, 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2") that amends SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008. We adopted SFAS 157 on October 1, 2008 for financial assets and liabilities measured on a recurring basis. See Note 7 for additional information on our adoption of SFAS 157.

Effective October 1, 2008, we adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which permits entities to elect to measure eligible items at fair value at specified dates. We did not elect the fair value option for any eligible items.

On October 1, 2007, we adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109* (FIN 48). FIN 48 created a single model to address accounting for uncertain income tax positions and established a minimum recognition threshold a tax position must meet before being recognized in the financial statements.

The evaluation of a tax position under FIN 48 is a two-step process. The first step is the recognition process to determine if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The second step is a measurement process whereby a tax position that meets the more likely than not recognition threshold is calculated to determine the amount of benefit/expense to recognize in the financial statements. The tax position is measured at the largest amount of benefit/expense that is more likely than not of being realized upon ultimate settlement.

As the result of the adoption of FIN 48 and recognition of the cumulative effect of the adoption of the new accounting principal, we recorded an $8.2 million decrease in contingent tax liabilities. The reduction of the contingent tax liabilities resulted in a $7.8 million decrease in goodwill as prescribed by Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7) and a $0.4 million decrease in retained deficit. Upon the adoption of FIN 48, the total liability for unrecognized tax benefits was $6.2 million, excluding accrued interest and penalties, which are discussed below. The liabilities for unrecognized tax benefits are a component of Other non-current liabilities in our consolidated balance sheets. The reversal of the liabilities for unrecognized tax benefits would result in a $6.1 million adjustment that would first go to reduce goodwill, then intangible assets and then additional paid-in capital as prescribed by SOP 90-7, as these represent amounts accrued prior to our emergence from bankruptcy. The remaining $0.1 million would result in a decrease in the provision for income tax expense.