INTEGRATED ELECTRICAL SERVICES INC
Form 10-Q
May 18, 2009

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

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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.

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;
- 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 possiblity 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 our annual report on Form 10-K 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 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, 2009 (Unaudited)	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	7,752	6,711
Assets from discontinued operations	392	2,034
Total current assets	242,798	264,159
LONG-TERM RECEIVABLE, net of allowance of $278	3,730	
PROPERTY AND EQUIPMENT, net	24,780	25,742
GOODWILL	4,373	4,395
OTHER NON-CURRENT ASSETS, net	20,366	25,480
Total assets	$ 296,047	$ 319,776
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 2,503	$ 2,905
Accounts payable and accrued expenses	75,816	98,046
Billings in excess of costs and estimated earnings on uncompleted contracts	36,487	33,711
Liabilities from discontinued operations	319	504
Total current liabilities	115,125	135,166
LONG-TERM DEBT, net of current maturities	26,385	26,739
OTHER NON-CURRENT LIABILITIES	11,852	10,765
Total liabilities	153,362	172,670
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	(12,805)	(11,480)
Total stockholders equity	142,685	147,106
Total liabilities and stockholders equity	$ 296,047	$ 319,776

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)	Three Months Ended March 31, 2008 (Unaudited)
Revenues	$ 167,305	$ 195,659
Cost of services	137,517	164,822
Gross profit	29,788	30,837
Selling, general and administrative expenses	29,147	27,486
Gain on sale of assets	(75)	(7)
Restructuring charges	1,908	2,098
Income (loss) from operations	(1,192)	1,260
Interest and other (income) expense:		
Interest expense	1,105	1,918
Interest income	(113)	(441)
Other (income) expense, net	(67)	(896)
Interest and other expense, net	925	581
Income (loss) from continuing operations before income taxes	(2,117)	679
Provision (benefit) for income taxes	(926)	453
Income (loss) from continuing operations	(1,191)	226
Discontinued operations (Note 2)		
Loss from discontinued operations	(73)	(366)
Benefit for income taxes	(30)	(179)
Net loss from discontinued operations	(43)	(187)
Net loss	$ (1,234)	$ 39
Basic earnings (loss) per share:		
Continuing operations	$ (0.08)	$ 0.02
Discontinued operations	$ (0.01)	$ (0.02)
Total	$ (0.09)	$ 0.00
Diluted earnings (loss) per share:		
Continuing operations	$ (0.08)	$ 0.02

Discontinued operations	$ (0.01)	$ (0.02)
Total	$ (0.09)	$ 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)		Six Months Ended March 31, 2008 (Unaudited)	
Revenues	$	340,675	$	392,779
Cost of services		281,227		328,907
Gross profit		59,448		63,872
Selling, general and administrative expenses		57,546		57,889
Gain on sale of assets		(178)		(24)
Restructuring charges		2,702		3,393
Income (loss) from operations		(622)		2,614
Interest and other (income) expense:				
Interest expense		2,090		6,151
Interest income		(273)		(1,545)
Other (income) expense, net		(217)		(1,323)
Interest and other expense, net		1,600		3,283
Loss from continuing operations before income taxes		(2,222)		(669)
Provision (benefit) for income taxes		(955)		25
Net loss from continuing operations		(1,267)		(694)
Discontinued operations (Note 2)				
Loss from discontinued operations		(102)		(114)
Benefit for income taxes		(44)		(50)
Net loss from discontinued operations		(58)		(64)
Net loss	$	(1,325)	$	(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)	Six Months Ended March 31, 2008 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,325)	$ (758)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net (income) loss from discontinued operations	58	64
Bad debt expense	617	749
Deferred financing cost amortization	128	1,400
Depreciation and amortization	4,454	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	5,072	(952)
Accounts payable and accrued expenses	(22,231)	(8,212)
Billings in excess of costs and estimated earnings on uncompleted contracts	2,776	2,343
Other non-current liabilities	1,088	228
Net cash used in continuing operations	(4,807)	(10,261)
Net cash provided by discontinued operations	1,400	2,256
Net cash used in operating activities	(3,407)	(8,005)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,301)	(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	(4,075)	(5,432)
Net cash provided by investing activities of discontinued operations		7

Net cash used in investing activities		(4,075)		(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 our annual report on Form 10-K 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 our annual report on Form 10-K 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.

We recognize interest and penalties related to unrecognized tax benefits as part of the provision for income taxes. Upon the adoption of FIN 48, we had approximately $0.4 million in accrued interest and penalties included in liabilities for unrecognized tax benefits. The accrued interest and penalties are a component of Other non-current liabilities in our consolidated balance sheets. The reversal of the accrued interest and penalties would result in a $0.2 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 $0.2 million would result in a decrease in the provision for income tax expense.

As of March 31, 2009, we have $6.6 million of unrecognized tax benefit of which $6.1 million 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 $0.5 million would result in a decrease in the provision for income tax expense. We anticipate that approximately $0.1 million of unrecognized tax benefits, including accrued interest, may reverse in the next twelve months. The reversal is predominately due to the expiration of the statutes of limitation for unrecognized tax benefits and the settlement of a state audit.

We had approximately $0.5 million and $0.5 million accrued for the payment of interest and penalties at March 31, 2009 and 2008, respectively. We recognize interest and penalties related to unrecognized tax benefits as part of the provision for income taxes.

We are currently not under federal audit by the Internal Revenue Service. The tax years ended September 30, 2005, and forward are subject to audit as are tax years prior to September 30, 2005, to the extent of unutilized net operating losses generated in those years. Currently, one of our business units is under a state audit for the tax years ended September 30, 2002, 2003 and 2005.

RECLASSIFICATIONS

During the six months ended March 31, 2009, we reclassified $0.4 million of amortization expenses previously classified as selling, general and administrative charges for the three month period ended December 31, 2008, to restructuring expense. This reclassification was based on our assessment that the acceleration of this amortization expense was due to our reorganization and rebranding efforts, which is a restructuring cost. This reclassification did not affect our prior period results of operations.

LONG-TERM RECEIVABLE

In March 2009, we transferred $4.0 million of trade accounts receivable to long-term receivable because the related construction project entered bankruptcy. At the same time, we reserved $0.3 million associated with this receivable. We have liens filed against the project and currently believe that the outstanding receivable is collectible, however there are significant risks involved in bankruptcy proceedings, and we may have to record additional reserves.

ACCOUNTING ADJUSTMENT

The accompanying financial statements for the three months ended March 31, 2009, include the after-tax impact of approximately $1.1 million in non-cash charges that represent the correction of prior period accounting errors. We determined that $0.5 million of the errors related to the year ending September 30, 2008, and $0.6 million related to the first quarter of fiscal 2009. These corrections are reflected on a pretax basis in cost of sales and selling, general, and administrative expenses, which include $0.4 million and $1.6 million, respectively.

We have considered the guidance in Statement of Financial Accounting Standard No. 154 Accounting Changes & Error Corrections (SFAS 154), Accounting Principles Board No. 28 Interim Financial Reporting (APB 28), Stateme of Financial Accounting Standard No. 16 Prior Period Adjustments (SFAS 16), SEC Staff Accounting Bulletin No. 99 Materiality (SAB 99) and SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), in evaluating whether a restatement of prior financial statements is required as a result of the misstatement to such financial statements. SFAS 154 requires that corrections of errors be recorded by restatement of prior periods if the error is material. Based on quantitative and qualitative factors, we have concluded that a restatement of previously issued financial statements is not necessary, as we believe the identified misstatement is immaterial. This conclusion is based on current internal forecasts of fiscal 2009 operating results as well as actual fiscal 2008 operating results. Actual results for fiscal 2009 could differ from those forecasted and result in a different conclusion.

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USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with United States generally accepted accounting principles (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 for construction in progress. Other estimates consist of allowances for doubtful accounts receivable, inventory obsolescence reserves, fair value assumptions in analyzing goodwill and long-lived asset impairments and adjustments from fresh-start accounting, realizability of deferred tax assets, self-insured claims liabilities, and estimated forfeiture rates and projected earnings used to measure stock-based compensation awards.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Our results of operations are seasonal, depending on weather trends, with higher revenues typically generated during spring and summer months, which coincide with our third and fourth fiscal quarters, and lower revenues typically generated during fall and winter months, which coincide with our first and second fiscal quarters. 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.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)), which replaces SFAS No. 141 *Business Combinations* (SFAS 141). SFAS 141(R) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141(R) eliminates the step acquisition model, changes the recognition of contingent consideration from being recognized when it is probable to being recognized at the time of acquisition, disallows the capitalization of transaction costs, and changes when restructuring charges related to acquisitions can be recognized. Under SFAS 141 and SOP 90-7, which were in effect at the time of our financial reorganization, reductions to our income tax valuation allowance recorded prior to April 30, 2006, would reduce goodwill to the extent thereof, then reduce other intangible assets, and then reduce additional paid-in capital. Beginning October 1, 2009, under the provisions of SFAS 141(R), reductions in the valuation allowance attributable to all periods, if any should occur, will be recorded as an adjustment to our income tax expense. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008.

STOCK-BASED COMPENSATION

Stock-based compensation consists of expenses related to employee stock option awards, restricted stock grants and performance-based restricted stock grants (see Note 6). We recognize stock-based compensation expense in a pro-rata manner based on the value of stock-based payment awards that are expected to vest, reduced for estimated forfeitures. SFAS 123(R), *Share-Based Payment* (SFAS 123(R)) requires forfeitures to be estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates.

SFAS 123(R) does not require a specific valuation model to measure the value of stock options, and either a binomial or the Black-Scholes model may be used. We used a binomial option pricing model to measure the fair value of stock options awarded in our 2008 and 2009 fiscal years. We believe the binomial pricing model is a more precise measure of the value of our stock options; however, the difference in the values between the two methods was not material for the options that we granted.

The assumptions used in the binomial pricing model calculation for the six months ended March 31, 2009 and 2008 are as follows:

	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Weighted average value per option granted during the period (1)	$ 8.56	$ 8.49
Assumptions:		
Stock price volatility	86.4%	51.6%
Risk free rate of return	1.3%	3.3%
Future forfeiture rate (2)	0.0%	0.0%
Expected term	6.0 years	6.0 years

(1) We do not pay dividends on our common stock.

(2) The forfeiture rate is assumed to be zero based on the limited number of employees who have been awarded stock options.

2. STRATEGIC ACTIONS

The 2007 Restructuring Plan

During our 2008 fiscal year, we completed our restructuring of operations from our previous geographic structure into three major lines of business: Commercial, Industrial and Residential. This operational restructuring (the 2007 Restructuring Plan) was part of our long-term strategic plan to reduce our cost structure, reposition our business to better serve our customers, strengthen our financial controls and, as a result, position us to implement a market-based growth strategy. The 2007 Restructuring Plan consolidated certain leadership roles, administrative support functions and eliminated redundant functions that were previously performed at 27 division locations. Since we began the 2007 Restructuring Plan in June 2007, we recorded a total of $5.6 million of restructuring charges.

As part of the restructuring charges, we recognized $0.5 million, $2.2 million and $0.2 million in severance costs at our Industrial, Commercial and Residential segments, respectively. In addition to the severance costs described above, we incurred other charges of approximately $2.6 million predominately for consulting services associated with the 2007 Restructuring Plan. We wrote off $0.1 million of leasehold improvements at an operating location that we closed. We are also accelerating our trade name amortization during 2009 fiscal year totaling $1.6 million. These charges have been identified within the Restructuring Charges caption in our consolidated statements of operations.

The 2009 Restructuring Plan

In the first quarter of our 2009 fiscal year, we began a new restructuring program (the 2009 Restructuring Plan) that is designed to consolidate operations within our three segments. The 2009 Restructuring Plan is the next level of our business optimization strategy. Our plan is to streamline our local project and support operations, which will be managed through regional operating centers, and to capitalize on the investments we made over the past year to further leverage our resources. Under the 2009 Restructuring Plan, we expect to incur pre-tax restructuring charges, including severance benefits and facility consolidations and closings, of approximately $3.0 million to $5.0 million, which will be implemented over approximately 12 months. During the six months ended March 31, 2009, we incurred $2.7 million associated with the 2009 Restructuring Plan, of which $0.2 million, $0.9 million, $1.4 million, and $0.2 million was charged to our Industrial, Commercial, Residential segments and Corporate office, respectively.

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

	Severance Charges	Consulting / Other Charges	Total
Restructuring liability at September 30, 2008	$ 638	$ 53	$ 691
Restructuring charges incurred during the six months ended March 31, 2009	1,673	1,029	2,702
Less cash payments during the six months ended March 31, 2009	(1,098)	(53)	(1,151)
Less non-cash amortization expense		(804)	(804)
Restructuring liability at March 31, 2009	$ 1,213	$ 225	$ 1,438

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Exit or Disposal Activities

On March 28, 2006, based on the recommendation of the Board of Directors, we committed to an exit plan with respect to five underperforming subsidiaries in our Commercial and Industrial segments. The exit plan committed to a shut-down or consolidation of the operations of these subsidiaries or, alternatively, the sale or other disposition of the subsidiaries, whichever came sooner. The exit plan is complete for the five subsidiaries that we selected to exit in March 2006, and the operations of these subsidiaries substantially ceased as of September 30, 2006. In June 2007, we shut down our Mid-States Electric division, located in Jackson, Tennessee. Mid-States was part of our Commercial segment prior to being classified as discontinued. In August 2008, we shut down our Haymaker division, located in Birmingham, Alabama. Haymaker was part of our Industrial segment prior to being classified as discontinued.

The assets, liabilities and operating results for each of these shut-down entities have been reclassified to discontinued operations for both current and prior periods**.** Remaining net working capital related to these subsidiaries was $0.1 million and $1.5 million at March 31, 2009, and September 30, 2008, respectively. As a result of inherent uncertainty in the exit plan and the monetization of these subsidiaries working capital, we could experience additional losses of working capital. At March 31, 2009, we believe we have recorded adequate reserves to reflect the net realizable value of the working capital; however, subsequent events may impact our ability to collect.

We have included the results of operations related to these business units in discontinued operations for the three months and six months ended March 31, 2009 and 2008.

Summarized financial data for all discontinued operations are outlined below (in thousands):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues	$	$ 878
Gross profit (loss)	$ 8	$ (112)
Pre-tax loss	$ (73)	$ (366)

	Six Months Ended March 31, 2009	Six Months Ended March 31, 2008
Revenues	$ 21	$ 2,626
Gross profit	$ 27	$ 292
Pre-tax loss	$ (102)	$ (114)

	March 31, 2009	September 30, 2008
Accounts receivable, net	$ 390	$ 1,967
Property and equipment, net	2	67
Total assets	$ 392	$ 2,034
Accounts payable and accrued liabilities	$ 319	$ 481
Billings in excess of costs and estimated earnings on uncompleted contracts		23
Total liabilities	319	504
Net assets	$ 73	$ 1,530

3. DEBT AND LIQUIDITY

Debt consists of the following (in thousands):

	March 31, 2009	September 30, 2008
Term Loan, due May 15, 2013, bearing interest at 11.0%	$ 25,678	$ 25,000
Camden Note Payable, due July 1, 2010, bearing interest at 4.59%	3,046	4,419
Capital lease and other	164	225
Total debt	28,888	29,644
Less Short-term debt and current maturities of long-term debt	(2,503)	(2,905)
Total long-term debt	$ 26,385	$ 26,739

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Future payments on debt at March 31, 2009 are as follows (in thousands):

2009	$	1,526
2010		1,684
2011		
2012		
2013		25,678
Thereafter		
Total	$	28,888

For the three months ended March 31, 2009 and 2008, we incurred interest expense of $1.1 million and $1.9 million, respectively. Interest expense includes amortization of deferred financing charges of $0.1 million and $0.7 million for the three months ended March 31, 2009 and 2008, respectively. For the six months ended March 31, 2009 and 2008, we incurred interest expense of $2.1 million and $6.2 million, respectively. Interest expense includes amortization of deferred financing charges of $0.1 million and $1.4 million for the six months ended March 31, 2009 and 2008, respectively, and prepayment penalties of $2.1 million incurred during December 2007.

The Tontine Capital Partners Term Loan

On December 12, 2007, we entered into a $25.0 million senior subordinated loan agreement (the Tontine Term Loan) with Tontine Capital Partners, L.P., a related party. The proceeds of the Tontine Term Loan, together with cash on hand, were used to fund the repayment of the Eton Park Term Loan (defined below). 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 March 31, 2009, we temporarily capitalized $0.7 million of interest as additional loan principal as part of our ongoing process to manage liquidity, according to this paid in-kind option, which has since been repaid. We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty. The Tontine Term Loan is subordinated to our existing Revolving Credit Facility (defined below) with Bank of America, N.A. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers. The Tontine Term Loan contains no financial covenants or restrictions on dividends or distributions to stockholders.

Camden Note Payable

On August 1, 2008, we financed an insurance policy with a $4.6 million note payable from Camden Premium Finance, Inc. (the Camden Note Payable), bearing interest at 4.59%, through July 1, 2010. Under the terms of the Camden Note Payable, we are to make thirteen equal payments of $243,525 (including principal and interest) beginning September 1, 2008 until October 1, 2009, followed by ten equal payments of $167,589 (including principal and interest). The Camden Note Payable is collateralized by the gross unearned premiums on the policy and any payments on account of loss under the policy. As of March 31, 2009, we have a remaining liability of $3.0 million under the Camden Note Payable which reflects future principal payments.

The Revolving Credit Facility

On May 12, 2006, we entered into an agreement, as amended (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 9, 2008, we renegotiated the terms of our Revolving Credit Facility and entered into an amended agreement with the same financial institutions. The Revolving Credit Facility provides access to revolving borrowings in the aggregate amount of up to $60.0 million. At March 31, 2009, we had $34.0 million in letters of credit issued against the Revolving Credit Facility and $3.0 million available under the Revolving Credit Facility.

The Revolving Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our and 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 that were modified in conjunction with its renewal and amendment on May 9, 2008. The financial covenants are described below in the section titled Financial Covenants . The Revolving Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock. The maturity date of the Revolving Credit Facility is May 12, 2010.

Under the renegotiated terms of our Revolving Credit Facility interest was calculated at LIBOR plus 3.0%, or the lender s prime rate (the Base Rate) plus 1.0% through September 30, 2008. Thereafter, interest is based on our total liquidity, which is calculated as cash on hand plus availability under the Revolving Credit Facility, as shown in the following table.

Total Liquidity	**Interest Rate**
Greater than $60 million	LIBOR plus 2.75% or Base Rate plus 0.75%
From $40 million to $60 million	LIBOR plus 3.00% or Base Rate plus 1.00%
Less than $40 million	LIBOR plus 3.25% or Base Rate plus 1.25%

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At March 31, 2009, our total liquidity was $54.6 million. For the three months ended March 31, 2009, our weighted average interest rate under the Revolving Credit Facility was 4.0%. The letter of credit fee under the revised agreement was 3.25% through September 30, 2008, after which the letter of credit fee is based on the same factor as loans outstanding.

In addition, we are charged monthly in arrears (1) an unused line fee of either 0.5% or 0.375%, depending on the utilization of the credit line, and (2) certain other fees and charges as specified in the Loan and Security Agreement. Finally, the Revolving Credit Facility is subject to a prepayment fee of 0.5% until May 2009 and 0.25% until May 2010. We incurred a $275,000 charge from Bank of America as a result of the amendment, of which $200,000 is classified as a prepaid expense and is being amortized over 12 months and $75,000 is classified as a deferred financing fee and is being amortized over 24 months.

Through May 9, 2008, loans under the Revolving Credit Facility bore interest at LIBOR plus 3.5% or the base rate plus 1.5% on the terms set in the Loan and Security Agreement. In addition, we were charged monthly in arrears (1) an unused line fee of either 0.5% or 0.375%, depending on the utilization of the credit line, (2) a letter of credit fee equal to the applicable per annum LIBOR margin times the amount of all outstanding letters of credit, and (3) certain other fees and charges as specified in the Loan and Security Agreement.

Financial Covenants

The financial covenants for the Revolving Credit Facility as in effect on March 31, 2009, are described in the table that follows. As of March 31, 2009, we are in compliance with each of the following amended financial covenants under the Revolving Credit Facility:

Covenant	**Requirement**	**Actual**
Shutdown Subsidiaries Earnings Before Interest and Taxes	Cumulative loss not to exceed $2.0 million	Cumulative loss of $1.0 million
Fixed Charge Coverage Ratio	Minimum of 1.25:1.00	N/A (1)
Leverage Ratio	Maximum of 3.50:1.00	N/A (1)

(1) This covenant requirement will not be in effect any time our total liquidity, as defined in the Loan and Security Agreement, exceeds $50 million.

As of September 30, 2008, we were also in compliance with all of our financial covenants under the Revolving Credit Facility.

The Eton Park / Flagg Street Term Loan

On May 12, 2006, we entered into a $53.0 million senior secured term loan (the Eton Park Term Loan) with Eton Park Fund L.P. and certain of its affiliates and Flagg Street Partners L.P. and certain of its affiliates to refinance $51.9 million in senior convertible notes then outstanding. On December 12, 2007, we terminated the Eton Park Term Loan by prepaying in full all outstanding principal and accrued interest on the loan. On the same day, we entered into the $25 million Tontine Term Loan, as described above. Along with a prepayment penalty of $2.1 million that was included in interest expense and accrued interest of $1.0 million, the payoff amount under the Eton Park Term Loan was $48.7 million. We wrote off previously unamortized debt issuance costs of $0.3 million on the Eton Park Term Loan. Our weighted average interest rate under the Eton Park Term Loan was 10.75% for the period from October 1, 2007 to December 12, 2007.

4. EARNINGS PER SHARE

Our restricted shares granted under the 2006 Equity Incentive Plan participate in any dividends declared on our common stock. Accordingly, the restricted shares are considered participating securities under the two-class method as required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and the Two-class method under FASB Statement No. 128*. The two-class method is an earnings allocation formula that determines earnings for each class of common stock and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. Under the two-class method, net income is reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amounts of dividends that must be paid for the current period. The remaining earnings are then allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. Diluted earnings per share is calculated using the treasury stock and if converted methods for potential common stock. Basic earnings per share is calculated as income (loss) available to common stockholders, divided by the weighted average number of common shares outstanding during the period. If the effect is dilutive, participating securities are included in the computation of basic earnings per share. Our participating securities do not have a contractual obligation to share in the losses in any given period. As a result, these participating securities will not be allocated any losses in the periods of net losses, but will be allocated income in the periods of net income using the two-class method.

The tables that follow reconcile the components of the basic and diluted earnings per share for the three months and six months ended March 31, 2009 and 2008 (in thousands, except per share and per share data):

	Three Months Ended March 31, 2009	2008
Numerator:		
Net income (loss) from continuing operations attributable to common shareholders	$ (1,191)	$ 223
Net income (loss) from continuing operations attributable to restricted shareholders		3
Net income (loss) from continuing operations	$ (1,191)	$ 226
Net loss from discontinued operations attributable to common shareholders	$ (43)	$ (187)
Net loss from discontinued operations attributable to restricted shareholders		
Net loss from discontinued operations	$ (43)	$ (187)
Net income (loss) attributable to common shareholders	$ (1,234)	$ 38
Net income (loss) attributable to restricted shareholders		1
Net income (loss)	$ (1,234)	$ 39
Denominator:		
Weighted average common shares outstanding basic	14,322,439	15,015,717
Effect of dilutive stock options and non-vested restricted stock		5,803
Weighted average common and common equivalent shares outstanding diluted	$ 14,322,439	15,021,520
Basic income per share:		
Basic earnings (loss) per share from continuing operations	$ (0.08)	$ 0.02
Basic loss per share from discontinued operations	$ (0.01)	$ (0.02)
Basic earnings (loss) per share	$ (0.09)	$ 0.00
Diluted income per share:		
Diluted earnings (loss) per share from continuing operations	$ (0.08)	$ 0.02
Diluted loss per share from discontinued operations	$ (0.01)	$ (0.02)
Diluted earnings (loss) per share	$ (0.09)	$ 0.00

Six Months Ended

	March 31, 2009		March 31, 2008	
Numerator:				
Net loss from continuing operations attributable to common shareholders	$	(1,267)	$	(694)
Net loss from continuing operations attributable to restricted shareholders				
Net loss from continuing operations	$	(1,267)	$	(694)
Net loss from discontinued operations attributable to common shareholders	$	(58)	$	(64)
Net loss from discontinued operations attributable to restricted shareholders				
Net loss from discontinued operations	$	(58)	$	(64)
Net loss attributable to common shareholders	$	(1,325)	$	(758)
Net loss attributable to restricted shareholders				
Net loss	$	(1,325)	$	(758)
Denominator:				
Weighted average common shares outstanding basic		14,320,588		15,054,431
Effect of dilutive stock options and non-vested restricted stock				
Weighted average common and common equivalent shares outstanding diluted	$	14,320,588	$	15,054,431
Basic income per share:				
Basic loss per share from continuing operations	$	(0.09)	$	(0.05)
Basic loss per share from discontinued operations	$	(0.00)	$	(0.00)
Basic loss per share	$	(0.09)	$	(0.05)
Diluted income per share:				
Diluted loss per share from continuing operations	$	(0.09)	$	(0.05)
Diluted loss per share from discontinued operations	$	(0.00)	$	(0.00)
Diluted loss per share	$	(0.09)	$	(0.05)

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5. OPERATING SEGMENTS

In accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* certain information is disclosed based on the way management organizes financial information for making operating decisions and assessing performance.

We manage and measure performance of our business in three distinct operating segments: Commercial, Industrial, and Residential. We also have a Corporate office that provides general and administrative services to our three operating segments. As a result of the 2007 Restructuring Plan several administrative services were consolidated into the Corporate office. The Commercial segment provides electrical and communications design, installation, renovation, engineering and maintenance and replacement services in facilities such as office buildings, high-rise apartments and condominiums, theaters, restaurants, hotels, hospitals and critical-care facilities, school districts, light manufacturing and processing facilities, military installations, airports, outside plant, network enterprises and switch network customers. The Industrial segment provides electrical design, installation, renovation and engineering and maintenance and replacement services in facilities such as manufacturing and distribution centers, water treatment facilities, refineries, petrochemical and power plants, and alternative energy facilities. In addition to these services, our Industrial segment also designs and assembles modular power distribution centers. The Residential segment consists of electrical installation, replacement and renovation services in single-family, condominium, townhouse and low-rise multifamily housing units. The Corporate office includes expenses associated with providing support services to our operating segments.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, see Note 2 to our Consolidated Financial Statements included in our annual report on Form 10-K for the year ended September 30, 2008. We evaluate performance based on income from operations of the respective business units prior to Corporate office expenses. Management allocates some costs between segments for selling, general and administrative expenses, goodwill impairment, depreciation expense, capital expenditures and total assets.

Segment information for continuing operations for the three months and six months ended March 31, 2009 and 2008 is as follows (in thousands):

	Three Months Ended March 31, 2009 (Unaudited)				
	Commercial	Industrial	Residential	Corporate	Total
Revenues	$ 115,092	$ 18,332	$ 33,881	$	$ 167,305
Cost of services	95,958	15,398	26,161		137,517
Gross profit	19,134	2,934	7,720		29,788
Selling, general and administrative	7,530	2,118	7,095	12,404	29,147
Loss (gain) on sale of assets	(66)	(9)			(75)
Restructuring charge	169	114	888	737	1,908
Income (loss) from operations	$ 11,502	$ 711	$ (264)	$ (13,141)	$ (1,192)
Other data:					
Depreciation and amortization expense	$ 166	$ 159	$ 175	$ 2,117	$ 2,617
Capital expenditures	$ 279	$ 31	$ 249	$ 1,094	$ 1,653
Total assets	$ 138,411	$ 20,887	$ 38,166	$ 98,191	$ 295,655

	Three Months Ended March 31, 2008 (Unaudited)				
	Commercial	Industrial	Residential	Corporate	Total
Revenues	$ 111,491	$ 33,848	$ 50,320	$	$ 195,659
Cost of services	95,542	29,025	40,255		164,822

Gross profit	15,949	4,823	10,065		30,837
Selling, general and administrative	9,646	1,715	8,183	7,942	27,486
Loss (gain) on sale of assets	(103)		61	35	(7)
Restructuring charge	1,873	136	89		2,098
Income (loss) from operations	$ 4,533	$ 2,972	$ 1,732	$ (7,977)	$ 1,260
Other data:					
Depreciation and amortization expense	$ 796	$ 314	$ 645	$ 605	$ 2,360
Capital expenditures	$ 106	$ 474	$ 212	$ 637	$ 1,429
Total assets	$ 131,382	$ 32,599	$ 64,094	$ 86,272	$ 314,347

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	Six Months March 31, 2009 (Unaudited)				
	Commercial	Industrial	Residential	Corporate	Total
Revenues	$ 217,062	$ 44,366	$ 79,247	$	$ 340,675
Cost of services	182,083	37,919	61,225		281,227
Gross profit	34,979	6,447	18,022		59,448
Selling, general and administrative	15,788	3,893	15,266	22,599	57,546
Loss (gain) on sale of assets	(169)	(23)	14		(178)
Restructuring charges	420	194	1,355	732	2,702
Income (loss) from operations	$ 18,940	$ 2,382	$ 1,387	$ (23,331)	$ (622)
Other data:					
Depreciation and amortization expense	$ 358	$ 483	$ 1,453	$ 2,160	$ 4,454
Capital expenditures	$ 321	$ 75	$ 265	$ 1,640	$ 2,301

	Six Months March 31, 2008 (Unaudited)				
	Commercial	Industrial	Residential	Corporate	Total
Revenues	$ 221,172	$ 65,993	105,614	$	$ 392,779
Cost of services	188,965	55,296	84,646		328,907