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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-Q/A  
(Amendment No. 2)**

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

For the Quarterly Period Ended December 31, 2004

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 No. 1-13783

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**INTEGRATED ELECTRICAL SERVICES, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**1800 West Loop South  
Suite 500  
Houston, Texas**  
(Address of principal executive offices)

**76-0542208**  
(I.R.S. Employer  
Identification No.)

**77027-3233**  
(zip code)

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

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicated by checkmark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The number of shares outstanding as of January 31, 2005 of the issuer's common stock was 36,465,865 and of the issuer's restricted voting common stock was 2,605,709.

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EXPLANATORY NOTE

This Amendment No. 2 on Form 10-Q/A (the Amendment) amends the Quarterly Report on Form 10-Q (the Form 10-Q) for the three months ended December 31, 2004 of Integrated Electrical Services, Inc. (the Company) in response to comments received from the Securities and Exchange Commission (the SEC) after their review of the Company's 2004 Form 10-K. Item 2 included in this Amendment, "Management's Discussion and Analysis of Financial Condition and Results of Operations," (Item 2) has been modified specifically to address the request of the SEC for additional variance explanations regarding accounts receivable and unbilled receivables accounts. Item 4 included in this Amendment, "Controls and Procedures," has been modified to add additional elaboration regarding our disclosure controls and procedures, the investigation by the Company's audit committee of accounting matters and material weaknesses in our internal controls.

Pursuant to Rule 12b-15 under the Securities Act of 1934, the Company is including the entire Items 2 and 6. The Company has included as exhibits to this Amendment new certifications of its principal executive officer and principal financial officer.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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

	September 30, 2004	December 31, 2004
	(Audited)	(Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 22,232	31,672
Accounts receivable:		
Trade, net of allowance of \$4,160 and \$4,172, respectively	219,697	209,184
Retainage	68,037	65,430
Related party	33	43
Costs and estimated earnings in excess of billings on uncompleted contracts	37,490	37,102
Inventories	16,919	18,130
Prepaid expenses and other current assets	11,802	21,642
Assets held for sale associated with discontinued operations	53,178	29,127
	<hr/>	<hr/>
Total current assets	429,388	412,330
PROPERTY AND EQUIPMENT, net	42,776	41,110
GOODWILL, net	90,186	90,331
OTHER NON-CURRENT ASSETS	18,583	19,418
	<hr/>	<hr/>
Total assets	\$ 580,933	563,189
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 43,007	26,353
Accounts payable and accrued expenses	134,393	119,034
Billings in excess of costs and estimated earnings on uncompleted contracts	35,197	43,224
Liabilities related to assets held for sale associated with discontinued operations	17,484	11,882
	<hr/>	<hr/>
Total current liabilities	230,081	200,493
LONG-TERM DEBT, net of current maturities	15,066	6,035
SENIOR CONVERTIBLE NOTES, net	—	38,676
SENIOR SUBORDINATED NOTES, net	173,208	173,190
OTHER NON-CURRENT LIABILITIES	19,410	18,752
	<hr/>	<hr/>
Total liabilities	437,765	437,146
	<hr/>	<hr/>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$.01 par value, 100,000,000 shares authorized, 38,439,984 shares issued	385	385
Restricted voting common stock, \$.01 par value, 2,655,709 shares authorized, 2,605,709 shares issued, and outstanding	26	26
Treasury stock, at cost, 2,172,313 and 1,994,120 shares, respectively	(13,790)	(12,659)
Unearned restricted stock	(1,113)	(854)
Additional paid-in capital	429,376	428,469
Retained deficit	(271,716)	(289,324)
	<hr/>	<hr/>
Total stockholders' equity	143,168	126,043
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 580,933	563,189
	<hr/>	<hr/>

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

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

	Three Months Ended December 31,	
	2003	2004
	(restated)	(Unaudited)
Revenues	\$ 331,559	303,238
Cost of services	284,885	268,822
Gross profit	46,674	34,416
Selling, general and administrative expenses	32,683	36,035
Income/(loss) from operations	13,991	(1,619)
Other (income)/expense:		
Interest expense	6,459	8,844
(Gain)/loss on sale of assets	7	(36)
Other income, net	119	257
	6,585	9,065
Income/(loss) from continuing operations before income taxes	7,406	(10,684)
Provision/(benefit) for income taxes	1,538	299
Net income/(loss) from continuing operations	5,868	(10,983)
Discontinued operations (Note 2)		
Income/(loss) from discontinued operations (including gain on disposal of \$0 and \$86)	658	(6,620)
Provision for income taxes	237	5
Net income/(loss) from discontinued operations	421	(6,625)
Net income (loss)	\$ 6,289	(17,608)
Basic earnings/(loss) per share from continuing operations	\$ 0.15	(0.28)
Basic earnings/(loss) per share from discontinued operations	\$ 0.01	(0.17)
Basic earnings/(loss) per share	\$ 0.16	(0.46)
Diluted earnings/(loss) per share from continuing operations	\$ 0.15	(0.28)
Diluted earnings/(loss) per share from discontinued operations	\$ 0.01	(0.17)
Diluted earnings/(loss) per share	\$ 0.16	(0.46)
Shares used in the computation of earnings/(loss) per share (Note 4):		
Basic	38,273,416	38,665,537
Diluted	38,835,737	38,665,537

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

**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(IN THOUSANDS, EXCEPT SHARE INFORMATION)**

	Common Stock		Restricted Voting Common Stock		Treasury Stock		Unearned Restricted Stock	Additional Paid-In Capital	Retained (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
BALANCE, September 30, 2004	38,439,984	\$ 385	2,605,709	\$ 26	(2,172,313)	\$(13,790)	\$ (1,113)	\$429,376	\$(271,716)	\$ 143,168
Issuance of stock (unaudited)	—	—	—	—	8,252	52	—	(12)	—	40
Vesting of restricted stock (unaudited)	—	—	—	—	113,275	719	—	(719)	—	—
Exercise of stock options (unaudited)	—	—	—	—	56,666	360	—	(127)	—	233
Non-cash compensation (unaudited)	—	—	—	—	—	—	259	(49)	—	210
Net loss (unaudited)	—	—	—	—	—	—	—	—	(17,608)	(17,608)
<b>BALANCE, December 31, 2004 (unaudited)</b>	<b>38,439,984</b>	<b>\$ 385</b>	<b>2,605,709</b>	<b>\$ 26</b>	<b>(1,994,120)</b>	<b>\$(12,659)</b>	<b>\$ (854)</b>	<b>\$428,469</b>	<b>\$(289,324)</b>	<b>\$ 126,043</b>

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

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

	Three Months Ended December 31,	
	2003	2004
	(restated)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income/(loss)	\$ 6,289	(17,608)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net loss/(income) from discontinued operations	(421)	6,625
Bad debt expense	(513)	734
Depreciation and amortization	3,168	3,634
Loss on sale of property and equipment	7	(36)
Non-cash compensation expense	83	210
Equity in losses of investment	216	264
Impairment to goodwill	—	91
Non-cash interest charge for embedded conversion option	—	2,676
Deferred income tax expense/(benefit)	(1,391)	183
Changes in operating assets and liabilities, net of the effect of discontinued operations:		
Accounts receivable	10,513	12,669
Inventories	(1,804)	(1,211)
Costs and estimated earnings in excess of billings on uncompleted contracts	696	388
Prepaid expenses and other current assets	341	(9,840)
Other noncurrent assets	673	242
Accounts payable and accrued expenses	(6,685)	(16,131)
Billings in excess of costs and estimated earnings on uncompleted contracts	(38)	8,027
Other current liabilities	1	45
Other noncurrent liabilities	34	(660)
	<u>11,169</u>	<u>(9,698)</u>
Net cash provided by (used in) continuing operations	11,169	(9,698)
Net cash provided by (used in) discontinued operations	(4,742)	656
	<u>6,427</u>	<u>(9,042)</u>
Net cash provided by (used in) operating activities	6,427	(9,042)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of property and equipment	213	56
Investments in securities	(396)	—
Purchases of property and equipment	(1,326)	(1,181)
Net investing activities from discontinued operations	(413)	11,715
	<u>(1,922)</u>	<u>10,590</u>
Net cash provided by (used in) investing activities	(1,922)	10,590
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings of debt	40	10,000
Borrowings on Senior Convertible Notes	—	36,000
Repayments of debt	(139)	(35,701)
Issuance of common stock	20	40
Payments for debt issuance costs	—	(2,680)
Purchase of treasury stock	(3,350)	—
Proceeds from exercise of stock options	2,876	233
	<u>(553)</u>	<u>7,892</u>
Net cash provided by (used in) financing activities	(553)	7,892
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,952</b>	<b>9,440</b>
CASH AND CASH EQUIVALENTS, beginning of period	40,201	22,232
	<u>44,153</u>	<u>31,672</u>
CASH AND CASH EQUIVALENTS, end of period	\$44,153	31,672
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for		
Interest	\$ 210	1,119
Income taxes	\$ 374	277

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

**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
**(UNAUDITED)**

**1. OVERVIEW**

Integrated Electrical Services, Inc. (the "Company" or "IES"), a Delaware corporation, was founded in June 1997 to create a leading national provider of electrical services, focusing primarily on the commercial and industrial, residential, low voltage and service and maintenance markets.

The accompanying unaudited Condensed Consolidated Financial Statements (the "Financial Statements") of the Company have been prepared in accordance with accounting principles generally accepted in the United States and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements, and therefore should be reviewed in conjunction with the financial statements and related notes thereto contained in the Company's annual report for the year ended September 30, 2004, filed on Form 10-K with the Securities and Exchange Commission. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Actual operating results for the three months ended December 31, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2005.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For a description of these policies, refer to Note 2 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2004.

**RESTATEMENT OF FINANCIAL STATEMENTS**

Effective for the fiscal year ended September 30, 2004, the Company restated its reported results for the six months ended March 31, 2004 and the years ended September 30, 2002 and 2003 pursuant to having determined that the timing of the recognition of revenue and costs on certain of its long-term construction contracts accounted for under the percentage-of-completion method of accounting and that the accounting for one of its investments warranted such restatement. For a complete description of the restatement, refer to Note 3 of the Company's 2004 Annual Report on Form 10-K. As a result of the restatement, the following reported results as of and for the three months ended December 31, 2003 have been restated to reflect the revisions indicated:

	Three Months Ended December 31, 2003 (Unaudited)			
	As Reported	Contract Adjustments	Investment Adjustments	
<b>Statement of Operations Data:</b>				
Revenues	\$ 331,196	\$ 363	\$ —	\$ 331,559
Cost of services	284,838	47	—	284,885
Gross profit	46,358	316	—	46,674
Selling, general and administrative expenses	32,683	—	—	32,683
Income from operations	13,675	316	—	13,991
Interest and other expense, net	6,369	—	216	6,585
Income/(loss) before income taxes	7,306	316	(216)	7,406
Provision/(benefit) for income taxes	1,499	126	(87)	1,538
Net income/(loss) from continuing operations	\$ 5,807	\$ 190	\$ (129)	\$ 5,868
Net income from discontinued operations	421	—	—	421
Net income/(loss)	\$ 6,228	\$ 190	\$ (129)	\$ 6,289
Basic earnings per share from continuing operations	\$ 0.15	\$ 0.00	\$ 0.00	\$ 0.15
Basic earnings per share from discontinued operations	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.01
Basic earnings per share	\$ 0.16	\$ 0.00	\$ 0.00	\$ 0.16
Diluted earnings per share from continuing operations	\$ 0.15	\$ 0.00	\$ 0.00	\$ 0.15
Diluted earnings per share from discontinued operations	\$ 0.01	\$ 0.00	\$ 0.00	\$ 0.01
Diluted earnings per share	\$ 0.16	\$ 0.00	\$ 0.00	\$ 0.16



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Consolidated Balance Sheet (Unaudited)	December 31, 2003			As Restated
	As Reported	Contract Adjustments	Investment Adjustments	
<b>Assets:</b>				
Cash and cash equivalents	\$ 44,153	\$ —	\$ —	\$ 44,153
Accounts receivable, net	278,269	—	—	278,269
Cost and estimated earnings in excess of Billings on uncompleted contracts	45,217	(1,257)	—	43,960
Inventories	17,357	—	—	17,357
Prepaid expenses and other current assets	14,461	—	—	14,461
Assets held for sale associated with discontinued operations	69,527	—	—	69,527
Property and equipment, net	48,286	—	—	48,286
Goodwill, net	169,111	—	—	169,111
Other noncurrent assets	27,394	50	(1,717)	25,727
<b>Total assets</b>	<b>\$ 713,775</b>	<b>\$ (1,207)</b>	<b>\$ (1,717)</b>	<b>\$ 710,851</b>
<b>Liabilities:</b>				
Current maturities of long-term debt	\$ 186	\$ —	\$ —	\$ 186
Accounts payable and accrued expenses	115,685	47	—	115,732
Billings in excess of cost and estimated earnings on uncompleted contracts	39,785	139	—	39,924
Liabilities related to assets held for sale associated with discontinued operations	13,502	—	—	13,502
Long-term debt, net of current maturities	169	—	—	169
Senior subordinated notes, net	247,924	—	—	247,924
Other noncurrent liabilities	23,110	(521)	—	22,589
<b>Total liabilities</b>	<b>\$ 440,361</b>	<b>\$ (335)</b>	<b>\$ —</b>	<b>\$ 440,026</b>
Stockholders' equity	273,414	(872)	(1,717)	270,825
<b>Total liabilities and stockholders' equity</b>	<b>\$ 713,775</b>	<b>\$ (1,207)</b>	<b>\$ (1,717)</b>	<b>\$ 710,851</b>

## SUBSIDIARY GUARANTIES

All of the Company's operating income and cash flows are generated by its 100% owned subsidiaries, which are the subsidiary guarantors of the Company's outstanding 9 3/8% senior subordinated notes due 2009 (the "Senior Subordinated Notes"). The Company is structured as a holding company and substantially all of its assets and operations are held by its subsidiaries. There are currently no significant restrictions on the Company's ability to obtain funds from its subsidiaries by dividend or loan. The parent holding company's independent assets, revenues, income before taxes and operating cash flows are less than 3% of the consolidated total. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the Company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the Senior Subordinated Notes; and (iii) the aggregate assets, liabilities, earnings and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

## USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 the Company's revenue recognition of construction in progress, fair value assumptions in analyzing goodwill impairment, allowance for doubtful accounts receivable, realizability of deferred tax assets and self-insured claims liabilities.

## SEASONALITY AND QUARTERLY FLUCTUATIONS

The results of the Company's operations, primarily from residential construction, are seasonal, dependent upon weather trends, with higher revenues typically generated during the spring and summer and lower revenues during the fall and winter. The commercial and industrial aspect of its business is less subject to seasonal trends, as this work generally is performed inside structures protected

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from the weather. The Company's service business is generally not affected by seasonality. In addition, the construction industry has historically been highly cyclical. The Company's 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 gross margins for both bid and negotiated projects, the timing of new construction projects and any acquisitions. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

### NEW ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004), *Share Based Payment*, ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including restricted stock grants and grants of employee stock options, to be recognized in income and measured at fair value. Additionally, employee stock purchase programs have increased restrictions to be considered noncompensatory; therefore, most of these plans, formerly accounted for as noncompensatory stock purchase plans, will be required to be measured and recorded at fair value. Fair value is calculated utilizing a stock-option pricing model, where necessary, including specific input assumptions delineated in the standard. SFAS 123R utilizes a "modified grant-date approach" where, regardless of vesting conditions based on service and performance, measurement of the fair value of awards is calculated on the grant date and amortized into income over the requisite service period for all awards that vest. Where vesting of awards does not occur, no compensation cost will be recognized. SFAS 123R also significantly changes the treatment of taxes related to share based payments from that required under SFAS 123 or Accounting Principles Board Opinion No. 25, *Account for Stock Issued to Employees*, ("APB 25"). Through December 31, 2004, the Company has accounted for share-based payments pursuant to APB 25 and provided the requisite pro forma disclosures delineated in SFAS 123 in the notes to the consolidated financial statements. Pursuant to APB 25, the Company has only recognized compensation expense for certain restricted stock grants made in the fiscal years 2002 and 2004; however, no compensation expense has been required to be recognized for any stock option grants nor for the employee stock purchase plan. The Company is required to adopt SFAS 123R effective July 1, 2005 and has two transition options under the new standard; however, the recognition of compensation cost is the same under both options. The Company believes the adoption of SFAS 123R will have a material effect on the consolidated financial results of the Company during the period of adoption, however, the full effect the adoption of SFAS 123R has not been determined as of December 31, 2004.

### STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation arrangements using the intrinsic value method in accordance with the provisions of APB 25 and related interpretations. Under APB 25, if the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company's stock options have all been granted with exercise prices at fair value, therefore no compensation expense has been recognized under APB 25 (See Note 6) During the three months ended December 31, 2004, the Company recorded compensation expense of \$0.2 million in connection with a restricted stock award (See Note 6). Additionally, the Company recorded no compensation expense associated with the Employee Stock Purchase Plan which is defined as a non-compensatory plan pursuant to Financial Accounting Standards Board Interpretation No. 44 (See Note 7).

The following table illustrates the effect on net income and earnings per share assuming the compensation costs for the Company's stock option and purchase plans had been determined using the fair value method at the grant dates amortized on a pro rata basis over the vesting period as required under Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation* for the three months ended December 31, 2003 and 2004 (in thousands, except for per share data):

	Three months ended December 31,	
	2003	2004
Net income/(loss), as reported	\$6,289	\$(17,608)
Add: Stock-based employee compensation expense included in reported net income/(loss), net of related tax effects	50	216
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	371	178
Pro forma net income/(loss) for SFAS No. 123	\$5,968	\$(17,570)
Earnings/(loss) per share:		
Basic—as reported	\$ 0.16	\$ (0.46)
Basic—pro forma for SFAS No. 123	\$ 0.16	\$ (0.45)
Earnings/(loss) per share:		
Diluted—as reported	\$ 0.16	\$ (0.46)
Diluted—pro forma for SFAS No. 123	\$ 0.15	\$ (0.45)

## 2. BUSINESS DIVESTITURES

### *Discontinued Operations*

During October 2004, the Company announced plans to begin a strategic realignment including the planned divestiture of certain underperforming subsidiaries within the Company's commercial segment, and those that rely heavily on surety bonding for obtaining a significant portion of their projects. During November 2004, the Company's management committed to a plan to complete the divestiture of these companies by the end of fiscal 2005. This plan included management actively seeking potential buyers of the selected companies among other activities necessary to complete the sales. Management expects to be able to sell all considered subsidiaries at their respective fair market values at the date of sale determined by a reasonably accepted valuation method. Management does not foresee any significant changes in the plan, nor anticipates events requiring withdrawal from the plan. The discontinued operations disclosures include only those identified subsidiaries qualifying for discontinued operations treatment for the periods presented; therefore, other subsidiaries included in the Company's divestiture plan will be included in future periods as they qualify for discontinued operations treatment. Depreciation expense associated with discontinued operations for the three months ended December 31, 2003 and 2004 was \$0.3 and \$0.1, respectively.

During the fiscal first quarter ended December 31, 2004, the Company completed the sale of all the net assets of three of its operating subsidiaries for \$11.8 million in cash. These operating subsidiaries were located in the South and West regions and primarily provided electrical contracting services for the commercial segment. The sale generated an after-tax gain of \$0.4 million and has been recognized in the fiscal first quarter 2005 as discontinued operations in the consolidated income statement and the prior year's fiscal first quarter 2004 results of operations have been reclassified. Summarized financial data for discontinued operations are outlined below:

	Three Months Ended December 31,	
	2003	2004
Revenues	\$ 28,647	\$ 20,296
Gross profit	\$ 4,253	\$ 2,780
Pretax income/(loss)	\$ 658	\$ (6,625)
	<b>Balance as of</b>	
	September 30, 2004	December 31, 2004
Accounts receivable, net	\$ 31,544	\$ 18,036
Inventory	5,738	5,029
Costs and estimated earnings in excess of billings on uncompleted contracts	4,326	1,721
Other current assets	1,505	1,586
Property and equipment, net	2,085	1,201
Goodwill, net	7,900	1,554
Other noncurrent assets	80	—
<b>Total assets</b>	<b>\$ 53,178</b>	<b>\$ 29,127</b>
Accounts payable and accrued liabilities	\$ 15,092	\$ 10,309
Billings in excess of costs and estimated earnings on uncompleted contracts	2,392	1,573
<b>Total liabilities</b>	<b>17,484</b>	<b>11,882</b>
<b>Net assets</b>	<b>\$ 35,694</b>	<b>\$ 17,245</b>

### *Goodwill Impairment Associated with Discontinued Operations*

During the fiscal first quarter ended December 31, 2004, the Company recorded a goodwill impairment charge of \$6.2 million related to the identification of certain subsidiaries for disposal by sale prior to the end of the fiscal second quarter 2005. This impairment charge is included in the net loss from discontinued operations caption in the statement of operations. The impairment charge was calculated based on the assessed fair value ascribed to the subsidiaries identified for disposal less the net book value of the assets related to those subsidiaries. The fair value utilized in this calculation was the same as that discussed in the preceding paragraph addressing the impairment of discontinued operations. Where the fair value did not exceed the net book value of a subsidiary including goodwill, the goodwill balance was impaired as appropriate. This impairment of goodwill was determined prior to the disclosed calculation of any additional impairment of the identified subsidiary disposal group as required pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. As of December 31, 2004, the Company had only sold a portion of the subsidiaries included in its divestiture plan; therefore, the Company utilized

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estimated gross proceeds to calculate the fair values associated with the goodwill impairment charge. The Company does not expect any significant differences between those estimates and the actual proceeds to be received upon the sale of the subsidiaries, nor expects any significant effect on the goodwill impairment charge taken.

### *Impairment Associated with Discontinued Operations*

During the fiscal first quarter ended December 31, 2004, the Company recorded an impairment charge of \$0.7 million related to the identification of certain subsidiaries for disposal by sale prior to the end of the fiscal second quarter 2005. The impairment was calculated as the difference between the fair values, less costs to sell, assessed at the date the companies individually were selected for sale and their respective net book values after all other adjustments had been recorded. In determining the fair value for the disposed assets and liabilities, the Company evaluated past performance, expected future performance, management issues, bonding requirements, market forecasts and the carrying value of such assets and liabilities and received a fairness opinion from an independent consulting and investment banking firm in support of this determination for certain of the subsidiaries included in the assessment. The impairment charge was related to subsidiaries included in the commercial and industrial segment of the Company's operations (see Note 5).

## **3. DEBT**

### *Credit Facility*

On February 27, 2004, the Company amended and restated the \$125.0 million revolving credit facility to a \$125.0 million revolving credit facility and a \$50.0 million term loan led by Bank One, NA. The Company used the proceeds from the term loan and available cash to redeem \$75.0 million principal amount of the Company's long term bonds. Since February 27, 2004, and through December 10, 2004, the Company amended the credit facility four times. The amendments reduced the facility commitment, provided for covenants or waivers that permitted the Company to file the Form 10-Q for the quarter ended June 30, 2004 on or before December 15, 2004, permitted the Company to issue senior convertible notes, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis beginning December 31, 2004, increased pricing, established the borrowing base at 70 percent of qualifying receivables and permit the Company to release certain collateral related to bonded jobs to companies providing surety bonding. These amendments required the payments of fees upon their execution. These fees are capitalized as deferred financing costs and amortized over the life of the facility. The credit facility, as amended, matures on January 13, 2006. The Company has the ability to extend the facility until January 12, 2007 upon the payment of a fee if certain financial conditions are met. The term loan of the credit facility is due by September 30, 2005. At December 31, 2004, the term loan had outstanding borrowings of \$26.9 million. Amounts borrowed under the credit facility, as amended, bear interest at an annual rate of the bank's prime rate plus two percent. Fees of one percent per annum are assessed on the outstanding credit facility commitments as of the beginning of each quarter beginning January 1, 2005. The Company's direct and indirect subsidiaries guarantee the repayment of all amounts due under the facility and the facility is secured by a first perfected security interest in all the assets of the Company and those subsidiaries, including all of the outstanding capital shares of the capital stock of those subsidiaries. Among other restrictions, the financial covenants include minimum EBITDA, as defined in the credit agreement, requirements for core and all operations, a maximum senior secured debt to EBITDA ratio and a minimum interest coverage ratio.

As of December 31, 2004, the Company was in compliance with all financial covenants as they pertain to the Credit Facility, as amended.

As of December 31, 2004, the Company had \$26.9 million outstanding under the term loan portion of its Credit Facility, and \$6.0 million outstanding under the revolving credit line portion of its Credit Facility, letters of credit outstanding under its Credit Facility of \$37.0 million, and available borrowing capacity under its Credit Facility of \$38.7 million. As a result of the change in the Company's total capacity under the Credit Facility, as amended, pursuant to Emerging Issues Task Force Issue 98-14, *Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements*, the Company recorded additional interest expense of \$0.3 million related to the write off of deferred financing costs incurred prior to effecting the fourth amendment to the Credit Facility discussed above. This amount is included in interest expense related to the results of operations for the three months ended December 31, 2004.

### *Senior Subordinated Notes*

The Company has outstanding two different issues of senior subordinated notes with similar terms. The notes bear interest at 9<sup>3</sup>/<sub>8</sub>% and will mature on February 1, 2009. Interest is paid on the notes on February 1 and August 1 of each year. The notes are unsecured senior subordinated obligations and are subordinated to all other existing and future senior indebtedness. The notes are guaranteed on a senior subordinated basis by all the Company's subsidiaries. Under the terms of the notes, the Company is required to comply with various affirmative and negative covenants including (1) restrictions on additional indebtedness, and (2) restrictions on liens, guarantees and dividends. During the year ended September 30, 2004, the Company redeemed \$75.0 million principal amount of its senior subordinated notes, paying a call premium of 4.7%, or \$3.5 million. This premium along with a write off of previously capitalized deferred financing costs of \$1.6 million was recorded as a loss in other income and expense. At December 31, 2004, the

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Company had \$172.9 million in outstanding senior subordinated notes. The Company failed to timely file its June 30, 2004 Form 10-Q resulting in defaults under the indenture relating to the Company's subordinated debt and senior secured credit facility. The Company has since cured all defaults under both its subordinated debt and its senior secured credit facility.

### *Senior Convertible Notes*

On November 24, 2004, the Company entered into a purchase agreement for a private placement of \$36.0 million aggregate principal amount of its 6.5% Senior Convertible Notes due 2014. Investors in the notes agreed to a purchase price equal to 100% of the principal amount of the notes. The investors have an option to purchase up to an aggregate of \$14 million in additional notes on or before the later to occur of the 90th day after the closing date and the fifth business day after the Company's next annual meeting of stockholders. The notes require payment of interest semi-annually in arrears at an annual rate of 6.5%, have a stated maturity of November 1, 2014, constitute senior unsecured obligations of the Company, are guaranteed on a senior unsecured basis by the Company's significant domestic subsidiaries, and are convertible at the option of the holder under certain circumstances into shares of the Company's common stock at an initial conversion price of \$3.25 per share, subject to adjustment. On November 1, 2008, the Company has the option to redeem the Senior Convertible Notes, subject to certain conditions. The total number of shares of common stock deliverable upon conversion of the notes is limited to approximately 9.4 million shares (including approximately 1.9 million treasury shares), absent receipt of stockholder approval of the issuance of additional shares. Subject to certain conditions, to the extent that more shares would otherwise be issuable upon conversions of notes, the Company will be required to settle such conversions in cash by paying the value of the stock into which the notes would otherwise be convertible. The net proceeds from the sale of the notes were used to prepay a portion of the Company's senior secured Credit Facility and for general corporate purposes. The notes, the guarantees and the shares of common stock issuable upon conversion of the notes to be offered have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and, unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The senior convertible notes are a hybrid instrument comprised of two components: (1) a debt instrument and (2) certain embedded derivatives. The embedded derivatives include the portion of the notes that currently settle in cash, the potential liquidated damages in the form of an increased coupon if stockholder approval on the issuance of additional shares is not obtained and a fundamental change occurs and the value of the redemption premium that may be due in the event the Company redeems the notes prior to the stated maturity. In accordance with the guidance that Statement of Financial Accounting Standards No. 133, as amended, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS 133") and Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* ("EITF 00-19") provide, the embedded derivatives must be removed from the debt host and accounted for separately as a derivative instrument. These derivative instruments will be marked-to-market each reporting period. The calculation of the fair value of the conversion option was performed utilizing the Black-Scholes option pricing model with the following assumptions effective as of December 31, 2004: expected dividend yield of 0.00%, expected stock price volatility of 40.00%, weighted average risk free interest rate of 3.32% and an expected term of four to ten years. The valuation of the other embedded derivatives was derived by other valuation methods, including present value measures and binomial models. The initial value of the embedded derivatives were \$1.4 million. As of December 31, 2004, a mark to market loss of \$2.7 million was recorded to reflect the increase in the fair value of the derivatives to \$4.0 million. The Company also recorded accretion into interest expense related to the original value of this derivative and as additional debt.

Debt consists of the following (in thousands):

	September 30, 2004	December 31, 2004
Secured Credit Facility and term loan with a group of lending institutions, due February 27, 2008, with a weighted average interest rate of 7.25%	\$ 57,929	\$ 32,289
Senior Convertible Notes, due November 1, 2014, bearing interest at 6.5% with an effective interest rate of 6.5%	—	36,000
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 9.50%	62,885	62,885
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 10.00%	110,000	110,000
Other	144	99
<b>Total debt</b>	<b>230,958</b>	<b>241,273</b>
Less—short-term debt and current maturities of long-term debt	(42,995)	(26,353)
Less—unamortized discount on Senior Subordinated Notes	(2,307)	(2,175)
Add—fair value of embedded derivatives	—	2,676
Add—fair value of terminated interest rate hedge	2,630	2,480
<b>Total long-term debt</b>	<b>\$ 188,286</b>	<b>\$ 217,901</b>

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**4. EARNINGS PER SHARE**

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the three months ended December 31, 2003 and 2004 (in thousands, except share data):

	Three Months Ended December 31,	
	2003	2004
	(restated)	
<b>Numerator:</b>		
Net income/(loss)	\$ 6,289	\$ (17,608)
<b>Denominator:</b>		
Weighted average shares outstanding—basic	38,273,416	38,665,537
Effect of dilutive stock options	562,321	—
Weighted average shares outstanding—diluted	38,835,737	38,665,537
<b>Earnings/(loss) per share:</b>		
Basic	\$ 0.16	\$ (0.46)
Diluted	\$ 0.16	\$ (0.46)

For the three months ended December 31, 2003 and 2004, stock options of 2.3 million and 3.2 million representing common stock shares, respectively, were excluded from the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the Company's common stock. Additionally, 3.9 million common shares related to the senior convertible notes were excluded from the computation of diluted earnings per share due to the anti-dilutive effect of adding the related interest charges for the period back to net income for the quarter ended December 31, 2004.

**5. OPERATING SEGMENTS**

The Company follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information (SFAS 131)." Certain information is disclosed, per SFAS 131, based on the way management organizes financial information for making operating decisions and assessing performance.

The Company's reportable segments are strategic business units that offer products and services to two distinct customer groups. They are managed separately because each business requires different operating and marketing strategies. These segments, which contain different economic characteristics, are managed through geographical regions.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on income from operations of the respective business units prior to home office expenses. Management allocates costs between segments for selling, general and administrative expenses, goodwill impairment, depreciation expense, capital expenditures and total assets.

Segment information for the three months ended December 31, 2003 and 2004 is as follows (in thousands):

	Three Months Ended December 31, 2003			
	(restated)			
	Commercial and Industrial	Residential	Corporate	Total
Revenues	\$ 268,597	\$ 62,962	\$ —	\$331,559
Cost of services	235,888	48,997	—	284,885
Gross profit	32,709	13,965	—	46,674
Selling, general and administrative	20,408	7,047	5,228	32,683
Income (loss) from operations	\$ 12,301	\$ 6,918	\$ (5,228)	\$ 13,991
<i>Other data:</i>				
Depreciation and amortization expense	\$ 2,445	\$ 176	\$ 547	\$ 3,168
Capital expenditures	771	245	626	1,642
Total assets	497,046	109,254	104,551	710,851
	Three Months Ended December 31, 2004			
	Commercial and Industrial	Residential	Corporate	Total
Revenues	\$ 232,834	\$ 70,404	\$ —	\$303,238
Cost of services	211,936	56,886	—	268,822
Gross profit	20,898	13,518	—	34,416
Selling, general and administrative	21,594	6,836	7,605	36,035
Income (loss) from operations	\$ (696)	\$ 6,682	\$ (7,605)	\$ (1,619)

<i>Other data:</i>								
Depreciation and amortization expense	\$	1,957	\$	191	\$	1,486	\$	3,634
Capital expenditures		701		58		379		1,138
Total assets		377,676		105,329		80,184		563,189

The Company does not have significant operations or long-lived assets in countries outside of the United States.

## **6. 1999 INCENTIVE COMPENSATION PLAN**

In November 1999, the Board of Directors adopted the 1999 Incentive Compensation Plan (the “1999 Plan”). The 1999 Plan authorizes the Compensation Committee of the Board of Directors or the Board of Directors to grant employees of the Company awards in the form of options, stock appreciation rights, restricted stock or other stock based awards. The Company has up to 5.5 million shares of common stock authorized for issuance under the 1999 Plan.

In December 2003, the Company granted a restricted stock award of 242,295 shares under its 1999 Plan to certain employees. This award vests in equal installments on December 1, 2004 and 2005, provided the recipient is still employed by the Company. The market value of the stock on the date of grant for this award was \$2.0 million, which is recognized as compensation expense over the related two year vesting period. During the three months ended December 31, 2003 and 2004, the Company amortized \$0.1 million and \$0.3 million, respectively, to expense in connection with this award. On December 1, 2004, 113,275 restricted shares vested under this award and were issued out of treasury stock. During the period December 1, 2003 through November 30, 2004, 15,746 shares of those originally awarded were forfeited.

## **7. EMPLOYEE STOCK PURCHASE PLAN**

The Company has an Employee Stock Purchase Plan (the “ESPP”), which provides for the sale of common stock to participants as defined at a price equal to the lower of 85% of the Company’s closing stock price at the beginning or end of the option period, as defined. The ESPP is intended to qualify as an “Employee Stock Purchase Plan” under Section 423 of the Internal Revenue Code of 1986, as amended. In the three months ended December 31, 2003 and 2004, no shares were issued under the ESPP, respectively.

## **8. COMMITMENTS AND CONTINGENCIES**

The Company and its subsidiaries are involved in various legal proceedings that have arisen in the ordinary course of business. While it is not possible to predict the outcome of such proceedings with certainty and it is possible that the results of legal proceedings individually or cumulatively may materially adversely affect us, in the opinion of the Company, all such proceedings are either adequately covered by insurance or financial reserves or, if not so covered, should not ultimately result in any liability which would have a material adverse effect on the financial position, liquidity or results of operations of the Company. The Company expenses routine legal costs related to such proceedings as incurred.

On August 20, 2004, August 23, 2004, September 10, 2004, September 15, 2004, and October 4, 2004, Corinne Orem, Elaine English, Park Partners, L.P., Jack Zimny, and James Elmore, respectively, each filed a putative class action complaint against IES, and certain of our officers and directors, in the United States District Court for the Southern District of Texas, alleging that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and seeking a class determination for purchasers of IES stock between November 10, 2003 and August 13, 2004. The complaints seek unspecified amounts of compensatory damages, interest and costs, including legal fees. On November 19, 2004, these cases were consolidated. A motion to appoint a lead plaintiff is pending before the Court, and once an appointment is made, the plaintiff will have sixty days to file a consolidated amended complaint. Defendants will have sixty days from the filing of this consolidated amended complaint to respond.

On September 3, 2004, Chris Radek filed a shareholder derivative action in the District Court of Harris County, Texas naming Herbert R. Allen, Richard L. China, William W. Reynolds, Britt Rice, David A. Miller, Ronald P. Badie, Donald P. Hodel, Alan R. Sielbeck, C. Byron Snyder, Donald C. Trauscht, and James D. Woods as individual defendants and IES as nominal defendant. In this derivative action, the plaintiff makes substantially similar claims as made in the putative class action complaints, and adds common law claims against the individual defendants. The complaint in the shareholder derivative actions seeks unspecified amounts of damages, interest and costs, including legal fees. By agreement, the Defendants will not respond to this action until the plaintiff files an amended petition.

The Company intends to vigorously contest these actions. However, because they are at an early stage, it is premature at this time to predict liability or to estimate the damages, or the range of damages, if any, that we might incur in connection with these actions. An adverse outcome in these actions could have a material adverse effect on our business, consolidated financial condition, results of operations or cash flows.



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Some of the Company's customers require the Company to post letters of credit as a means of guaranteeing performance under its contracts and ensuring payment by the Company to subcontractors and vendors. If the customer has reasonable cause to effect payment under a letter of credit, the Company would be required to reimburse its creditor for the letter of credit. Depending on the circumstances surrounding a reimbursement to its creditor, the Company may have a charge to earnings in that period. To date the Company has not had a situation where a customer has had reasonable cause to effect payment under a letter of credit. At December 31, 2004, \$1.3 million of the Company's outstanding letters of credit were to collateralize its customers.

Some of the underwriters of the Company's casualty insurance program require it to post letters of credit as collateral. This is common in the insurance industry. To date the Company has not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At December 31, 2004, \$30.7 million of the Company's outstanding letters of credit were to collateralize its insurance program.

Many of the Company's customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that the Company will perform under the terms of a contract and that it will pay its subcontractors and vendors. In the event that the Company fails to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under the Company's bond. The Company's relationship with its sureties is such that it will indemnify the sureties for any expenses they incur in connection with any of the bonds they issue on the Company's behalf. To date, the Company has not incurred significant expenses to indemnify its sureties for expenses they incurred on the Company's behalf. As of December 31, 2004, the Company's cost to complete projects covered by surety bonds was approximately \$176.9 million and utilized a combination of \$17.5 million in cash and letters of credit totaling \$22.5 million to collateralize its bonding program.

In April 2000, the Company committed to invest up to \$5.0 million in EnerTech Capital Partners II L.P. (EnerTech). EnerTech is a private equity firm specializing in investment opportunities emerging from the deregulation and resulting convergence of the energy, utility and telecommunications industries. Through December 31, 2004, the Company had invested \$3.5 million under the Company's commitment to EnerTech. The carrying value of this EnerTech investment at September 30, 2004 and December 31, 2004 was \$3.0 million and \$3.0 million, respectively. This investment is accounted for on the cost basis of accounting and accordingly, the Company does not record unrealized losses for the EnerTech investment that it believes are temporary in nature. As of December 31, 2004, the unrealized losses related to the Company's share of the EnerTech fund amounted to approximately \$0.8 million, which it believes are temporary in nature. If facts arise that lead the Company to determine that such unrealized losses are not temporary, the Company will write down the investment in EnerTech through a charge to other expense during the period of such determination.

## **9. SUBSEQUENT EVENTS**

### *Discontinued Operations*

Subsequent to December 31, 2004, the Company sold substantially all the net assets of three commercial business units for total proceeds of \$7.8 million. These business units were included in the Company's aforementioned plan (see Note 2) to divest certain identified subsidiaries. These business units had combined revenues of \$10.1 million and \$10.8 million and operating losses of \$0.6 million and \$4.4 million for the three months ended December 31, 2003 and 2004, respectively. The results of operations from these three business units are included in the results from discontinued operations in the statement of operations for the three months ended December 31, 2003 and 2004.

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

### INTRODUCTION

The following should be read in conjunction with the response to Part I, Item 1 of this Report. Any capitalized terms used but not defined in this Item have the same meaning given to them in Part I, Item 1.

This quarterly report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on our expectations and involve risks and uncertainties that could cause our actual results to differ materially from those set forth in the statements. Such risks and uncertainties include, but are not limited to, the inherent uncertainties related to estimating future results, fluctuations in operating results because of downturns in levels of construction, incorrect estimates used in entering into fixed price contracts, difficulty in managing the operation and growth of existing and newly acquired businesses, the high level of competition in the construction industry and the effects of seasonality. The foregoing and other factors are discussed in our filings with the SEC, including our annual report on Form 10-K for our fiscal year ended September 30, 2004.

In response to the SEC's Release No. 33-8040, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies*, we have identified the accounting principles which we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. We identified our most critical accounting policies to be those related to revenue recognition, the assessment of goodwill impairment, our allowance for doubtful accounts receivable, the recording of our self-insurance liabilities and our estimation of the valuation allowance for deferred tax assets. These accounting policies, as well as others, are described in the Note 2 of "Notes to Consolidated Financial Statements" of our Annual report on Form 10-K for the year ended September 30, 2004 and at relevant sections in this discussion and analysis.

We enter into contracts principally on the basis of competitive bids. We frequently negotiate the final terms and prices of those contracts with the customer. Although the terms of our contracts vary considerably, most are made on either a fixed price or unit price basis in which we agree to perform the work for a fixed amount for the entire project (fixed price) or for units of work performed (unit price). We also perform services on a cost-plus or time and materials basis. We are generally able to achieve higher margins on fixed price and unit price than on cost-plus contracts. We currently generate, and expect to continue to generate, more than half of our revenues under fixed price contracts. Our most significant cost drivers are the cost of labor, the cost of materials and the cost of casualty and health insurance. These costs may vary from the costs we originally estimated. Variations from original estimated contract costs and variations from ongoing estimates of costs to complete projects in progress, along with other risks inherent in performing fixed price and unit price contracts, may result in actual revenue and gross profits or interim projected revenue and gross profits for a project differing from those we estimated and could result in losses on projects. Depending on the size of a particular project, variations from estimated project costs could have a significant impact on our operating results for any quarter or fiscal year. We believe our exposure to losses on fixed price contracts is limited in aggregate by the high volume and relatively short duration of the fixed price contracts we undertake. Additionally, we derive a significant amount of our revenues from new construction and from contracts performed in the southern United States. Downturns in new construction activity in the southern part of the United States could negatively affect our results.

We complete most projects in less than one year. We frequently provide service and maintenance work under open-ended, unit price master service agreements which are renewable annually. We recognize revenue on service and time and material work when services are performed. Work performed under a construction contract generally provides that customers accept completion of progress to date and compensate us for services rendered measured in terms of units installed, hours expended or some other measure of progress. Revenues from construction contracts are recognized on the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1 *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*. Percentage-of-completion for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. We generally consider contracts to be substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in project management, job performance, job conditions, estimated contract costs and profitability and final contract settlements may result in revisions to costs and income, and the effects of these revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined.

We evaluate goodwill for potential impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. Included in this evaluation are certain assumptions and estimates to determine the fair values of reporting units such as estimates of future cash flows, discount rates, as well as assumptions and estimates related to the valuation of other identified intangible assets. Changes in these assumptions and estimates or significant changes to the market value of our common stock could materially impact our results of operations or financial position.

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We provide an allowance for doubtful accounts for unknown collection issues in addition to reserves for specific accounts receivable where collection is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, our customers' access to capital, their willingness to pay, general economic conditions, our ongoing relationships and the strength of our claim and associated lien rights. In addition to these factors, our business and the method of accounting for construction contracts requires the review and analysis of not only the net receivables, but the amount of billings in excess of costs and costs in excess of billings which is integral to the overall review of collectibility associated with our billings in total. The analysis management utilizes to assess collectibility of its receivables includes a detailed review of older balances and analysis of days sales outstanding where we include in the calculation, in addition to accounts receivable balances net of any allowance for doubtful accounts, the level of costs in excess of billings netted against billings in excess of costs. The net of costs in excess of billings and billings in excess of costs on uncompleted contracts provides an indication of amounts billed ahead or behind the recognition of revenue on our construction contracts and are key in understanding our ability to control operational cash flows related to the revenue cycle.

We are insured for workers' compensation, automobile liability, general liability, employment practices and employee-related health care claims, subject to large deductibles. Our general liability program provides coverage for bodily injury and property damage that is neither expected nor intended. Losses up to the deductible amounts are accrued based upon our estimates of the liability for claims incurred and an estimate of claims incurred but not reported. The accruals are derived from actuarial studies, known facts, historical trends and industry averages utilizing the assistance of an actuary to determine the best estimate of the ultimate expected loss. We believe such accruals to be adequate. However, insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents not reported and the effectiveness of our safety program. Therefore, if actual experience differs from the assumptions used in the actuarial valuation, adjustments to the reserve may be required and would be recorded in the period that the experience becomes known.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation at least quarterly at the end of each fiscal quarter at such time as events have occurred or are anticipated to occur that may change our most recent assessment. The estimation of required valuation allowances includes estimates of future taxable income. In assessing the realizability of deferred tax assets at December 31, 2004, we considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income differs from our estimates, our results could be affected.

### **RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2003 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2004**

The following table presents selected unaudited historical financial information for the three months ended December 31, 2003 and 2004.

	Three Months Ended December 31,			
	2003	%	2004	%
	(restated)			
	(dollars in millions)			
Revenues	\$ 331.6	100%	\$ 303.2	100%
Cost of services (including depreciation)	284.9	86%	268.8	89%
Gross profit	46.7	14%	34.4	11%
Selling, general & administrative expenses	32.7	10%	36.0	12%
Income/(loss) from operations	14.0	4%	(1.6)	0%
Interest and other expense, net	6.6	2%	9.1	3%
Income/(loss) before income taxes	7.4	2%	(10.7)	4%
Provision for income taxes	1.5	0%	0.3	0%
Income/(loss) from continuing operations	5.9	2%	(11.0)	4%
Net income/(loss) from discontinued operations	0.4	0%	(6.6)	2%
Net income/(loss)	\$ 6.3	2%	\$ (17.6)	6%

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### REVENUES

	Percent of Total Revenues	
	Three Months Ended December 30,	
	2003	2004
Commercial and Industrial	81%	77%
Residential	19%	23%
<b>Total Company</b>	<b>100%</b>	<b>100%</b>

Total revenues decreased \$28.4 million, or 8.6%, from \$331.6 million for the three months ended December 31, 2003, to \$303.2 million for the three months ended December 31, 2004. This decrease in revenues is primarily the result of a decrease in revenues of \$35.1 million in certain commercial markets resulting from the decrease in the award of bonded projects for the three months ended December 31, 2004, offset partially by an increase of \$6.8 million in residential revenues.

Commercial and industrial revenues decreased \$35.8 million, or 13.3%, from \$268.6 million for the three months ended December 31, 2003, to \$232.8 million for the three months ended December 31, 2004. The decrease is due to a decrease in commercial revenues and industrial revenues of \$18.6 million and \$14.3 million, respectively, primarily in the North, South, and West regions for the three months ended December 31, 2004 versus December 31, 2003 due to decreased spending in these markets and a decrease in the award of bonded projects. Additionally, a decrease of \$5.0 million in service and maintenance revenues in our North and West regions attributed to the overall decrease for the same periods compared.

Residential revenues increased \$7.4 million, or 11.7%, from \$63.0 million for the three months ended December 31, 2003 to \$70.4 million for the three months ended December 31, 2004, primarily as a result of increased demand for new single-family and multi-family housing resulting from the continued lower interest rate environment.

### GROSS PROFIT

	Segment Gross Profit Margins As a Percent of Segment Revenues	
	Three Months Ended December 31,	
	2003	2004
Commercial and Industrial	12%	9%
Residential	22%	19%
<b>Total Company</b>	<b>14%</b>	<b>11%</b>

Gross profit decreased \$12.3 million, or 26.3%, from \$46.7 million for the three months ended December 31, 2003, to \$34.4 million for the three months ended December 31, 2004. Gross profit margin as a percentage of revenues decreased from 14.1% to 11.3% for the three months ended December 31, 2003 compared to three months ended December 31, 2004. The decline in gross margin from the three months ended December 31, 2003 compared to the three months ended December 31, 2004 was primarily due to a combination of increased competition in our residential segment and decreased profitability due to project management and decreased award of bonded projects in our commercial and industrial segment. The fixed price nature of many of our contracts precluded us from recovering certain cost increases from our customers.

Commercial and industrial gross profit decreased \$11.8 million, or 36.1%, from \$32.7 million for the three months ended December 31, 2003 to \$20.9 million for the three months ended December 31, 2004. Commercial and industrial gross profit margin as a percentage of revenues decreased from 12.2% for the three months ended December 31, 2003, to 9.0% for the three months ended December 31, 2004. This decrease in gross profit margin as a percentage of revenues was primarily the result of reduced job profitability at specific subsidiaries and decreased awards of bonded projects.

Residential gross profit decreased \$0.5 million, or 3.6%, from \$14.0 million for the three months ended December 31, 2003, to \$13.5 million for the three months ended December 31, 2004. Residential gross profit margin as a percentage of revenues decreased from 22.2% for the three months ended December 31, 2003, to 19.2% for the three months ended December 31, 2004. This decrease in gross profit margin as a percentage of revenues was primarily the result of increased competition for work and lower overall prices that we cannot pass on to our customers in markets we serve.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses increased \$3.3 million, or 10.1%, from \$32.7 million for the three months ended December 31, 2003, to \$36.0 million for the three months ended December 31, 2004. Selling, general and administrative expenses as a percentage of revenues increased from 9.9% for the three months ended December 31, 2003 to 11.9% for the three months ended December 31, 2004. Additional costs resulting from not timely filing our fiscal third quarter 2004 Form 10-Q were \$0.8 million in bank advisory fees, \$0.3 million in external auditor fees, and \$0.8 in legal fees. The increase in legal fees resulted from the combination of not timely filing our fiscal third quarter 2004 Form 10-Q and other litigation during the three months ended December 31, 2004. Additional costs of \$0.9 million were incurred during the three months ended December 31, 2004 associated with an incentive program that were not incurred during the three months ended December 31, 2003.

**INCOME FROM OPERATIONS**

Income from operations decreased \$15.6 million, or 111.4%, from \$14.0 million for the three months ended December 31, 2003, to an operating loss of \$1.6 million for the three months ended December 31, 2004. This decrease in income from operations was attributed to both an increase in cost of goods sold resulting from the increase in commodity prices during the three months ended December 31, 2004 over the same period in the prior year and the increase in selling, general, and administrative costs of \$3.3 million during the three months ended December 31, 2004.

**NET INTEREST AND OTHER EXPENSE**

Interest and other expense, net increased from \$6.6 million for the three months ended December 31, 2003, to \$9.1 million for the three months ended December 31, 2004. This increase in net interest and other expense was primarily the result of \$2.7 million in non-cash mark-to-market interest associated with the embedded conversion option within our senior convertible notes issued in November 2004, and \$0.3 million in deferred financing costs expensed related to the decrease in our overall borrowing capacity pursuant to us effecting the fourth amendment to our Credit Facility in December 2004.

**PROVISION FOR INCOME TAXES**

Our effective tax rate decreased from 22.0% for the three months ended December 31, 2003 to a negative rate of 2.8% for the three months ended December 31, 2004. This decrease is attributable a pretax net loss, permanent differences required to be added back for income tax purposes, the impairment of non-deductible goodwill, an additional valuation allowance against certain federal and state deferred tax assets and a change in contingent tax liabilities.

**DISCONTINUED OPERATIONS**

During October 2004, we announced plans to begin a strategic alignment including the planned divestiture of certain commercial segment, underperforming subsidiaries and those that rely heavily on surety bonding for obtaining a majority of their projects. During November 2004, management committed to a plan to complete the divestiture of these companies by the end of fiscal 2005. This plan included management's actively seeking potential buyers of the selected companies among other activities necessary to complete the sales. Management expects to be able to sell all considered subsidiaries at their respective fair market values at the date of sale determined by a reasonably accepted valuation method. Management does not foresee any significant changes in the plan, nor anticipates events requiring withdrawal from the plan. The discontinued operations disclosures include only those identified subsidiaries qualifying for discontinued operations treatment for the periods presented; therefore, other subsidiaries included in our divestiture plan will be included in future periods as they qualify for discontinued operations treatment.

During the fiscal first quarter ended December 31, 2004, we completed the sale of all the net assets of three of our operating subsidiaries for \$11.8 million in cash. These operating subsidiaries were located in our South and West regions and primarily provided electrical contracting services for our commercial segment. The sale generated an after-tax gain of \$0.4 million and has been recognized in the fiscal first quarter 2005 as discontinued operations in the consolidated income statement and the prior year's fiscal first quarter 2004 results of operations have been reclassified. Summarized financial data for discontinued operations are outlined below:

	Three Months Ended December 31,	
	2003	2004
Revenues	\$28,647	\$20,296
Gross profit	\$ 4,253	\$ 2,780
Pretax income/(loss)	\$ 658	\$ (6,625)

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	Balance as of	
	September 30, 2004	December 31, 2004
Accounts receivable, net	\$ 31,544	\$ 18,036
Inventory	5,738	5,029
Costs and estimated earnings in excess of billings on uncompleted contracts	4,326	1,721
Other current assets	1,505	1,586
Property and equipment, net	2,085	1,201
Goodwill, net	7,900	1,554
Other noncurrent assets	80	—
<b>Total assets</b>	<b>\$ 53,178</b>	<b>\$ 29,127</b>
Accounts payable and accrued liabilities	\$ 15,092	\$ 10,309
Billings in excess of costs and estimated earnings on uncompleted contracts	2,392	1,573
<b>Total liabilities</b>	<b>17,484</b>	<b>11,882</b>
<b>Net assets</b>	<b>\$ 35,694</b>	<b>\$ 17,245</b>

During the fiscal first quarter ended December 31, 2004, we recorded a goodwill impairment charge of \$6.2 million related to the identification of certain subsidiaries for disposal by sale prior to the end of the fiscal second quarter 2005. This impairment charge is included in the net loss from discontinued operations caption in the statement of operations. The impairment charge was calculated based on the assessed fair value ascribed to the subsidiaries identified for disposal less the net book value of the assets related to those subsidiaries. The fair value utilized in this calculation was the same as that discussed in the preceding paragraph addressing the impairment of discontinued operations. Where the fair value did not exceed the net book value of a subsidiary including goodwill, the goodwill balance was impaired as appropriate. This impairment of goodwill was determined prior to the disclosed calculation of any additional impairment of the identified subsidiary disposal group as required pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets*. As of December 31, 2004, we had only sold a portion of the subsidiaries included in our divestiture plan; therefore, we utilized estimated gross proceeds to calculate the fair values associated with the goodwill impairment charge. We do not expect any significant differences between those estimates and the actual proceeds to be received upon the sale of the subsidiaries, nor expect any significant effect on the goodwill impairment charge taken.

During the fiscal first quarter ended December 31, 2004, we recorded an impairment charge of \$0.7 million related to the identification of certain subsidiaries for disposal by sale prior to the end of the fiscal second quarter 2005. The impairment was calculated as the difference between the fair values, less costs to sell, assessed at the date the companies individually were selected for sale and their respective net book values after all other adjustments had been recorded. In determining the fair value for the disposed assets and liabilities, we evaluated past performance, expected future performance, management issues, bonding requirements, market forecasts and the carrying value of such assets and liabilities and received a fairness opinion from an independent consulting and investment banking firm in support of this determination for certain of the subsidiaries included in the assessment. The impairment charge was related to subsidiaries included in the commercial and industrial segment of our operations (see Note 5).

[Table of Contents](#)**WORKING CAPITAL**

	September 30, 2004	December 31, 2004
	(restated)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 22,232	\$ 31,672
Accounts receivable:		
Trade, net of allowance of \$4,160 and \$4,172 respectively	219,697	209,184
Retainage	68,037	65,430
Related party	33	43
Costs and estimated earnings in excess of billings on uncompleted contracts	37,490	37,102
Inventories	16,919	18,130
Prepaid expenses and other current assets	11,802	21,642
Assets held for sale associated with discontinued operations	53,178	29,127
	<hr/>	<hr/>
Total current assets	\$ 429,388	\$ 412,330
	<hr/>	<hr/>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 43,007	26,353
Accounts payable and accrued expenses	134,393	119,034
Billings in excess of costs and estimated earnings on uncompleted contracts	35,197	43,224
Liabilities related to assets held for sale associated with discontinued operations	17,484	11,882
	<hr/>	<hr/>
Total current liabilities	\$ 230,081	\$ 200,493
	<hr/>	<hr/>
Working capital	\$ 199,307	\$ 211,837
	<hr/>	<hr/>

Total current assets decreased \$17.1 million, or 4.0%, from \$429.4 million as of September 30, 2004 to \$412.3 million as of December 31, 2004. This decrease is primarily the result of a \$10.5 million decrease in trade accounts receivable, net, due to a company-wide focus on collections and the timing of billings on projects in progress, \$24.1 million decrease in assets held for sale associated with discontinued operations due to the sale of three business units during the three months ended December 31, 2004; offset by an increase in prepaid expenses and other current assets of \$10.1 million from additional cash collateral deposited with our surety bonding company, and a net increase in cash of \$9.4 resulting from the proceeds received from the issuance of our senior convertible bonds in November 2004 and \$16.7 million in payments on the term loan portion of our Credit Facility.

As of December 31, 2004, the status of our costs in excess of billings versus our billings in excess of costs significantly improved over that at September 30, 2004; and days sales outstanding decreased 2.2% from September 30, 2004 to December 31, 2004. Our receivables and costs and earnings in excess of billings on uncompleted contracts as compared to quarterly revenues decreased from 101.2% at September 30, 2004 to 100.0% at December 31, 2004, when adjusted for a balance of \$8.1 million as of December 31, 2004 in long-standing receivables also outstanding at September 30, 2004, but not fully collected by December 31, 2004. As is common in the construction industry, some of these receivables are in litigation or require us to exercise our contractual lien rights and are expected to be collected within the fiscal year ended September 30, 2005. These receivables are primarily associated with a few operating companies within our southern region and are expected to be collected in fiscal year 2005. Although improvement was experienced over the periods discussed, some of our receivables are slow pay in nature or require us to exercise our contractual or lien rights. We believe that our allowances for doubtful accounts are sufficient to cover any uncollectible accounts.

Total current liabilities decreased \$29.6 million, or 12.9%, from \$230.1 million as of September 30, 2004 to \$200.5 million as of December 31, 2004. This decrease is primarily the result of a \$16.6 million decrease in current maturities of long-term debt related to payments on our Credit Facility, \$15.4 million decrease in accounts payable and accrued expenses due to the timing of payments made and reduced operating activity resulting from the seasonality of our business and from the decreased ability to obtain bonding during the three months ended December 31, 2004, \$5.6 million decrease related to the sale of three business units during the three months ended December 31, 2004 pursuant to a divestiture plan previously disclosed; offset by a \$8.0 million increase in billings in excess of costs incurred due to a company wide emphasis to increase cash flows through increasing advanced billings on contracts in progress.

Working capital increased \$12.5 million, or 6.3%, due primarily to cash proceeds received from the issuance of \$36.0 million in senior convertible bonds during the three months ended December 31, 2004; offset by a net \$6.6 million decrease resulting from net decreases in accounts receivable and accounts payable and accrued expenses associated with reduced operating activity resulting from both seasonality of the business and a decrease in the award of bonded projects, \$18.0 decrease in working capital from the sale of three subsidiaries during the three months ended December 31, 2004. See "Liquidity and Capital Resources" below for further information.

**LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2004, we had cash and cash equivalents of \$31.7 million, working capital of \$212.2 million, outstanding borrowings of \$32.9 million under our credit facility and term loan, \$37.0 million of letters of credit outstanding, and available capacity under our credit facility of \$38.7 million. The amount outstanding under our senior subordinated notes was \$172.9 million and \$37.9 million outstanding under our senior convertible notes including \$36.0 million face value plus \$1.9 million associated with its embedded conversion option.

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During the three months ended December 31, 2004, we used \$9.0 million of net cash from operating activities. This net cash used by operating activities comprised of a net loss of \$17.6 million, decreased by a \$6.6 million net loss from discontinued operations, \$0.7 million net operating cash flows from discontinued operations, and \$6.9 million of non-cash charges related primarily to \$3.6 million of depreciation and amortization expense, and \$2.7 million noncash interest charges; and offset by changes in working capital of \$6.5 million. Working capital changes consisted of a \$12.7 million decrease in trade accounts receivable due to the timing of collections, \$9.8 million increase in prepaid expenses and other current assets due to cash deposited with our surety bonding company collateralizing our surety bonds. Additionally, accounts payable and accrued expenses decreased \$16.1 million due to the timing of payments from period to period, and billings in excess of costs increased \$8.0 million. Net cash provided by investing activities was \$10.6 million, consisting primarily of \$11.8 million in proceeds received for the sale of three business units during the three months ended December 31, 2004 included in net cash provided by investing activities related to discontinued operations, offset by \$1.2 million related to the of property and equipment. Net cash provided by financing activities was \$7.9 million, resulting primarily from the receipt of \$36.0 million in senior convertible notes and additional drawings on our Credit Facility, offset by \$35.7 million in payments made on our Credit Facility and term loan and \$2.7 million in financing costs capitalized primarily associated with the issuance of our senior convertible notes.

On November 5, 2003, we commenced a \$13 million share repurchase program. We used approximately \$4.6 million in cash generated from operations to repurchase 549,200 shares during the year ended September 30, 2004 under this program. The terms of our credit facility, as amended, restrict our ability to repurchase shares under this program; therefore, no shares were repurchased under this program for the three months ended December 31, 2004.

On February 27, 2004, we amended and restated our \$125.0 million revolving credit facility to a \$125.0 million revolving credit facility and a \$50.0 million term loan led by Bank One, NA. We used the proceeds from the term loan and available cash to redeem \$75.0 million principal amount of our long term bonds. Since February 27, 2004, and through December 10, 2004, we have amended the credit facility four times. The amendments provided, among other things, for covenants or waivers that permit us to file our Form 10-Q for the quarter ended June 30, 2004 on or before December 15, 2004, permitted us to issue senior convertible notes, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis beginning December 31, 2004, increased pricing, established the borrowing base at 70 percent of qualifying receivables and permit us to release certain collateral related to bonded jobs to companies providing surety bonding. These amendments required the payments of fees upon their execution. These fees are capitalized as deferred financing costs and amortized over the life of the facility. The credit facility, as amended, matures on January 13, 2006. We have the ability to extend the facility until January 12, 2007 upon the payment of a fee if certain financial conditions are met. The term loan of the credit facility is due by September 30, 2005. At December 31, 2004, the term loan had outstanding borrowings of \$26.9 million. Amounts borrowed under the credit facility, as amended, bear interest at an annual rate of the banks prime rate plus two percent. Fees of one percent per annum are assessed on the outstanding credit facility commitment as of the beginning of each quarter beginning January 1, 2005. Our direct and indirect subsidiaries guarantee the repayment of all amounts due under the facility and the facility is secured by a first perfected security interest in all the assets of the company and those subsidiaries, including all of the outstanding capital shares of the capital stock of those subsidiaries. Among other restrictions, the financial covenants include minimum EBITDA requirements for core and all operations, a maximum senior secured debt to EBITDA ratio and a minimum interest coverage ratio.

We have outstanding two different issues of senior subordinated notes with similar terms. The notes bear interest at 9<sup>3</sup>/<sub>8</sub>% and will mature on February 1, 2009. We pay interest on the notes on February 1 and August 1 of each year. The notes are unsecured senior subordinated obligations and are subordinated to all of our existing and future senior indebtedness. The notes are guaranteed on a senior subordinated basis by all of our subsidiaries. Under the terms of the notes, we are required to comply with various affirmative and negative covenants including (1) restrictions on additional indebtedness, and (2) restrictions on liens, guarantees and dividends. During the year ended September 30, 2004, we redeemed \$75.0 million principal amount of our senior subordinated notes, paying a call premium of 4.7%, or \$3.5 million. This premium along with a write off of previously capitalized deferred financing costs of \$1.6 million was recorded as a loss in other income and expense. At December 31, 2004, we had \$172.9 million in outstanding senior subordinated notes. We failed to timely file our June 30, 2004 Form 10-Q resulting in defaults under the indenture relating to our subordinated debt and senior secured credit facility. We have since cured all defaults under both our subordinated debt and senior secured credit facility.



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### *Senior Convertible Notes*

On November 24, 2004, we entered into a purchase agreement for a private placement of \$36.0 million aggregate principal amount of its 6.5% Senior Convertible Notes due 2014. Investors in the notes agreed to a purchase price equal to 100% of the principal amount of the notes. The investors have an option to purchase up to an aggregate of \$14 million in additional notes on or before the later to occur of the 90th day after the closing date and the fifth business day after our next annual meeting of stockholders. The notes require payment of interest semi-annually in arrears at an annual rate of 6.5%, have a stated maturity of November 1, 2014, constitute senior unsecured obligations, are guaranteed on a senior unsecured basis by our significant domestic subsidiaries, and are convertible at the option of the holder under certain circumstances into shares of our common stock at an initial conversion price of \$3.25 per share, subject to adjustment. On November 1, 2008, we have the option to redeem the Senior Convertible Notes, subject to certain conditions. The total number of shares of common stock deliverable upon conversion of the notes is limited to approximately 9.4 million shares (including approximately 1.9 million treasury shares), absent receipt of stockholder approval of the issuance of additional shares. Subject to certain conditions, to the extent that more shares would otherwise be issuable upon conversions of notes, we will be required to settle such conversions in cash by paying the value of the stock into which the notes would otherwise be convertible. The net proceeds from the sale of the notes were used to prepay a portion of our senior secured Credit Facility and for general corporate purposes. The notes, the guarantees and the shares of common stock issuable upon conversion of the notes to be offered have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and, unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

The senior convertible notes are a hybrid instrument comprised of two components: (1) a debt instrument and (2) certain embedded derivatives. The embedded derivatives include the portion of the notes that currently settle in cash, the potential liquidated damages in the form of an increased coupon if stockholder approval on the issuance of additional shares is not obtained a make-whole premium which may be payable in cash in the event that stockholder approval on the issuance of additional shares is not obtained and a fundamental change occurs and the value of the redemption premium that may be due in the event we redeem the notes prior to the stated maturity. In accordance with the guidance that Statement of Financial Accounting Standards No. 133, as amended, *Accounting for Derivative Instruments and Hedging Activities*, ("SFAS 133") and Emerging Issues Task Force Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* ("EITF 00-19") provide, the embedded derivatives must be removed from the debt host and accounted for separately as a derivative instrument. These derivative instruments will be marked-to-market each reporting period. The calculation of the fair value of the conversion option was performed utilizing the Black-Scholes option pricing model with the following assumptions effective as of December 31, 2004: expected dividend yield of 0.00%, expected stock price volatility of 40.00%, weighted average risk free interest rate of 3.32% and an expected term of four to ten years. The valuation of the other embedded derivatives was derived by other valuation methods, including present value measures and binomial models. The initial value of the embedded derivatives were \$1.4 million. As of December 31, 2004, a mark to market loss of \$2.7 million was recorded to reflect the increase in the fair value of the derivatives to \$4.0 million. The Company also recorded accretion into interest expense related to the original value of this derivative and as additional debt.

All of our operating income and cash flows are generated by our 100% owned subsidiaries, which are the subsidiary guarantors of our outstanding senior subordinated notes. We are structured as a holding company and substantially all of our assets and operations are held by our subsidiaries. There are currently no significant restrictions on our ability to obtain funds from our subsidiaries by dividend or loan. Our parent holding company's independent assets, revenues, income before taxes and operating cash flows are less than 3% of the consolidated total. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the senior subordinated notes; and (iii) the aggregate assets, liabilities, earnings and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the company on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

We enter into noncancelable operating leases for many of our vehicle and equipment needs. These leases allow us to retain our cash when we do not own the vehicles or equipment and we pay a monthly lease rental fee. At the end of the lease, we have no further obligation to the lessor. We may determine to cancel or terminate a lease before the end of its term. Typically we are liable to the lessor for various lease cancellation or termination costs.

Some of our customers require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. Depending on the circumstances surrounding a reimbursement to our creditor, we may have a charge to earnings in that period. To date we have not had a situation where a customer has had reasonable cause to effect payment under a letter of credit. At December 31, 2004, \$1.3 million of our outstanding letters of credit were to collateralize our customers.

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral. This is common in the insurance industry. To date we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At December 31, 2004, \$30.7 million of our outstanding letters of credit were to collateralize our insurance program.

Many of our customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. In the event that we fail to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under our bond. Our relationship with our sureties is such that we will indemnify the sureties for any expenses they incur in connection with any of the bonds they issues on our behalf. To date, we have not incurred significant costs to indemnify our sureties for expenses they incurred on our behalf. As of December 31, 2004, our cost to complete projects covered by surety bonds was approximately \$176.9 million and utilized a combination of \$17.5 million in cash and letters of credit totaling \$22.5 million to collateralize its bonding program.

In April 2000, we committed to invest up to \$5.0 million in EnerTech Capital Partners II L.P. (EnerTech). EnerTech is a private equity firm specializing in investment opportunities emerging from the deregulation and resulting convergence of the energy, utility and telecommunications industries. Through December 31, 2004, we had invested \$3.5 million under our commitment to EnerTech. The carrying value of this EnerTech investment at September 30, 2004 and December 31, 2004 was \$3.0 million and \$3.0 million, respectively. This investment is accounted for on the cost basis of accounting and accordingly, we do not record unrealized losses for the EnerTech investment that we believe are temporary in nature. As of December 31, 2004, the unrealized losses related to our share of the EnerTech fund amounted to approximately \$0.8 million, which we believe are temporary in nature. If facts arise that lead us to determine that such unrealized losses are not temporary, we would write down our investment in EnerTech through a charge to other expense during the period of such determination.

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Our future contractual obligations due by September 30 of each of the following fiscal years include (in thousands)(1):

	2005	2006	2007	2008	2009	Thereafter	Total
Debt obligations	\$26,289	\$6,000	\$ —	\$ —	\$172,885	\$ 36,000	\$241,174
Operating lease obligations	10,404	9,959	7,005	4,228	2,827	1,468	35,891
Deferred and contingent tax liabilities	2,620	9,966	5,167	970	29	—	18,752
Capital lease obligations	64	35	—	—	—	—	99

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

Our other commercial commitments expire by September 30 of each of the following fiscal years (in thousands):

	2005	2006	2007	2008	2009	Thereafter	Total
Standby letters of credit	\$37,006	\$—	\$—	\$—	\$—	\$ —	\$37,006
Other commercial commitments	\$ —	\$—	\$—	\$—	\$—	\$ 1,500(2)	\$ 1,500

(2) Balance of investment commitment in EnerTech.

## OUTLOOK

Economic conditions across the country are challenging, although construction industry spending is expected to increase by two percent in 2005 according to F.W. Dodge. We continue to focus on collecting receivables and reducing days sales outstanding. We will continue to take steps to reduce our costs. We have made significant reductions in administrative overhead at the home office and in the field. We have elected to sell or close certain operations that are heavily dependent on bonding or are otherwise underperforming. These operations generated total revenues in fiscal 2004 of \$327.1 million and operating losses of \$11.7 million. If we are successful in our efforts to sell these operations, their revenue and income (loss) contributions will no longer be included in our results of operations and the sales proceeds will be used primarily to reduce our indebtedness. As we continue to divest of operations and cut costs our outlook will change. Therefore, we are not providing guidance at this time.

We expect to generate cash flow from operations, sales of businesses, borrowing under our convertible debt indenture and our credit facility. Our cash flows from operations tend to track with the seasonality of our business and historically have improved in the latter part of our fiscal year. We anticipate that these combined cash flows will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. We expect capital expenditures of approximately \$5.0 million for the fiscal year ended September 30, 2005. Our ability to generate cash flow is dependent on many factors, including demand for our products and services, the availability of projects at margins acceptable to us, the ultimate collectibility of our receivables, the ability to consummate transactions to dispose of businesses and our ability to borrow on our credit facility. See "Disclosure Regarding Forward-Looking Statements."

## SEASONALITY AND QUARTERLY FLUCTUATIONS

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

## INFLATION

Due to the relatively low levels of inflation experienced in fiscal 2002 and 2003, inflation did not have a significant effect on our results in those fiscal years or on any of the acquired businesses during similar periods. During fiscal 2004, however, we experienced significant increases in the commodity prices of copper products, steel products and fuel. Over the long-term, we expect to be able to pass those increased costs to our customers.

## RECENT ACCOUNTING PRONOUNCEMENTS

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement No. 123 (revised 2004), *Share Based Payment*, ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including restricted stock grants and grants of employee stock options, to be recognized in income and measured at fair value. Additionally, employee stock purchase

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programs have increased restrictions to be considered noncompensatory; therefore, most of these plans, formerly accounted for as noncompensatory stock purchase plans, will be required to be measured and recorded at fair value. Fair value is calculated utilizing a stock-option pricing model, where necessary, including specific input assumptions delineated in the standard. SFAS 123R utilizes a "modified grant-date approach" where, regardless of vesting conditions based on service and performance, measurement of the fair value of awards is calculated on the grant date and amortized into income over the requisite service period for all awards that vest. Where vesting of awards does not occur, no compensation cost will be recognized. SFAS 123R also significantly changes the treatment of taxes related to share based payments from that required under SFAS 123 or Accounting Principles Board Opinion No. 25, *Account for Stock Issued to Employees*, ("APB 25"). Through December 31, 2004, we have accounted for share-based payments pursuant to APB 25 and provided the requisite pro forma disclosures delineated in SFAS 123 in the notes to the consolidated financial statements. Pursuant to APB 25, we have only recognized compensation expense for certain restricted stock grants made in the fiscal years 2002 and 2004; however, no compensation expense has been required to be recognized for any stock option grants nor for the employee stock purchase plan. We are required to adopt SFAS 123R effective July 1, 2005 and have two transition options under the new standard; however, the recognition of compensation cost is the same under both options. We believe the adoption of SFAS 123R will have a material effect on our consolidated financial results during the period of adoption, however, the full effect the adoption of SFAS 123R has not been determined as of December 31, 2004.

### **ITEM 4. CONTROLS AND PROCEDURES**

(a) **Disclosure controls and procedures.** An evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and the CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2004. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were not effective, as of December 31, 2004. Based upon that evaluation, the Company took the following steps to improve the functioning of its disclosure controls:

- Changed the reporting relationships of regional controllers, so that they report directly to IES' chief accounting officer and have a direct line of communication to the chief accounting officer and the disclosure committee.
- Conducted further follow up of the investigation of accounting matters related to the identified material weaknesses at the direction and under the supervision of the Audit Committee.
- Provided accounting briefings to subsidiary management to clarify and strengthen management's understanding of the Company's revenue recognition policies and the reporting by subsidiaries of revenue and write-downs on contracts.
- Expanded the form of certification used for subsidiary presidents and controllers so that exceptions are identified to the chief accounting officer and the disclosure committee to permit further review and gathering of information and more timely disclosure.

The conclusion that the Company's disclosure controls and procedures were not effective as of December 31, 2004, was based on the identification of two material weaknesses in internal control in August 2004, for which remediation is still ongoing, and follow up items to the external investigation by special counsel that extended past December 31, 2004.

(b) **Internal Controls.** During the fourth quarter of fiscal 2004, IES conducted an evaluation of the financial results relating to certain projects at one of its subsidiaries. Following the internal investigation, the Company's Audit Committee engaged special counsel to conduct an investigation of those matters. The special investigation has been concluded, and the Company believes that the issues regarding its financial results were not widespread. The issues at one subsidiary related to (1) a series of large contracts accounted for on a percentage of completion basis in which actual costs projected to be incurred exceeded the original projected costs, but appropriate adjustments were not reflected, (2) general and administrative costs recorded to a particular contract that did not relate to that contract and (3) the recognition of revenue related to the recording of incorrect margin on a particular long-term contract. The issues at another subsidiary related to incorrectly recorded revenues attributable to a large project that were not detected as part of the Company's normal closing process. The aggregate amount of the issues at these two subsidiaries is approximately \$5.7 million.

As a result of the above matters, the independent auditors of IES advised the Company that they would not be able to complete their procedures in accordance with AU 722, "Interim Financial Information," on the Company's third quarter results. They advised IES that until the audit of its fiscal year 2004 financial statements was completed, they would be unable to complete their procedures in accordance with AU 722 on third quarter results. The reasons for the delay were the two material weaknesses identified by the independent auditors as described below and concerns that the size of the adjustments taken for the items identified above, coupled with any other adjustments that may have been identified in the course of the audit, could have resulted in a requirement to restate prior periods.

In response to the issues identified above, by letter dated August 12, 2004, Ernst & Young, IES' independent auditors, issued a letter to IES advising the Company that they had identified two deficiencies in the design of internal controls that are material weaknesses:

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- First, at one subsidiary, certain administrative costs were inappropriately recorded as additional contract costs on a large cost-plus contract, which resulted in the deferral of expenses and overstatement of revenues for the first quarter of fiscal 2002. Additionally, the subsidiary recorded margin on that same contract of up to 8% when the contract only allowed for costs plus a maximum of 6%.
- Second, the Company recorded an additional \$4.3 million in adjustments to contract cost, reversal of revenue and other issues. The auditors concluded that the Company's lack of timely updating of estimated costs to complete contracts and lack of monitoring revenue recognition policies was a deficiency and material weakness.

To address the issues described above, IES' management made the policy, training, controls and organizational changes described below:

- IES is reviewing its internal controls by to improve the functioning of internal controls and address the potential deficiencies and weaknesses.
- The number of reporting regions was reduced, and a new "rapid response" team was created to step in and assist subsidiaries experiencing difficulties to accelerate corrective measures.
- Implementation of new and significantly expanded training programs for employees responsible for financial reporting.
- The form of certification used for subsidiary presidents and controllers was revised and expanded.
- Reporting relationships were changed so that regional controllers report directly to IES' chief accounting officer and have a direct line of communication to the chief accounting officer.
- A centralized accounting system has been implemented at 90 percent of the Company's subsidiaries as of December 2004. This accounting system permits remote access and increased oversight of the accounting records at each subsidiary location. The increased automation of the revenue reporting process has strengthened the Company's internal controls.
- IES is in the process of implementing policies to require additional support in narrative or other form to document probable collection of larger aged accounts receivable. Under the revised policy, evidence required to recognize revenue will be a written or oral change order or notice to proceed.
- IES is in the process of clarifying and improving its accounting policies, including its policies regarding revenue recognition, ethics compliance and contract documentation, and providing the policies in language and format that are more readily usable.
- IES increased its regional and corporate monitoring procedures including consolidated five quarter fade reviews, troubled contract reviews, revenues at risk analysis and increased involvement from regional and corporate accounting in significant judgments.
- IES will continue to leverage the capabilities of its Forefront reporting system, improve the documentation of the cost to complete calculation and formalize the process for monthly work in process review meetings.

At December 31, 2004, the Company does not believe that the material weakness relating to the timely updating of estimated costs to complete contracts has been remediated. The company expects that further training, process improvement, and monitoring of compliance with the Company's revenue recognition policies is required to fully remediate this material weakness. The Company's auditors concur that these steps are required to fully remediate the material weakness and include their suggestions. IES believes these changes allow it to better enforce controls and detect potential issues more quickly in the future.

Subsequent to December 31, 2004, the Company received a letter from its external auditors identifying matters involving internal control over financial reporting and its operation that they considered to be a material weakness. This weakness was identified upon the Company filing an amended Form 10-Q to correct a material error in the Company's segment reporting footnote. The material weakness relates to the operation of the Company's financial reporting process including an under resourced accounting staff which prevents adequate review and supervision, and the lack of certain management review during the financial reporting process.

The Company's management is taking the following steps to remediate the material weakness:

- The Company recently hired a new senior accountant that will provide supervisory accounting staff the ability to increase review and supervision within the accounting department.
- The Company has in place its Financial Reporting Manager who was unavailable for the December 2004 close.
- The Company is in the process of filling its vacant Chief Accounting Officer position.
- The Company has also reinforced a more rigorous review of public filings by other areas of management, including legal, operations and other executives.

The Company believes the additional staff and processes identified above will serve to remediate the identified material weakness.

## **ITEM 6. EXHIBITS**

10.1*(1)	Form of Mutual Agreement and Release, dated as of December 15, 2004, between Margery M. Harris and Integrated Electrical Services, Inc.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Herbert R. Allen, Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of David A. Miller, Chief Financial Officer
32.1	Section 1350 Certification of Herbert R. Allen, Chief Executive Officer
32.2	Section 1350 Certification of David A. Miller, Chief Financial Officer

\* This exhibit relates to a management contract or compensatory plan or arrangement.

(1) Filed herewith.

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

**SIGNATURES**

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

INTEGRATED ELECTRICAL SERVICES, INC.

Date: April 11, 2005

By: \_\_\_\_\_ /s/ DAVID A. MILLER

**David A. Miller**  
**Senior Vice President**  
**and Chief Financial Officer**

**Integrated Electrical Services, Inc.**  
**MUTUAL AGREEMENT AND RELEASE**

This Mutual Agreement and Release ("Agreement"), dated as of December 15, 2004, is between Margery M. Harris ("Harris") and Integrated Electrical Services, Inc. ("IES").

**RECITALS**

Margery M. Harris and IES wish to terminate their employment relationship amicably, settle existing disputes and to set forth their remaining obligations to one another. In order to provide for a smooth transition and to foreclose any potential claims or disputes existing or arising between the parties, Margery M. Harris and IES have agreed to enter this Agreement.

**AGREEMENT**

In consideration of the foregoing recitals, the mutual agreements and undertakings of the parties set forth below, and other good and valuable consideration that is addition to any rights Harris may already have and the receipt, adequacy and sufficiency of which are hereby expressly acknowledged, Harris and IES agree as follows:

**1. Separation Date**

Harris and IES hereby terminate their employment relationship effective January 15, 2005 ("Separation Date"). Harris acknowledges that she is subject to an employment contract and that all obligations of IES under that contract have been fulfilled or are fulfilled in full by this agreement and that IES has the right to terminate her employment without any further liability of any kind, including but not limited to payments of any kind pursuant to such contract.

**2. Severance Payment**

In return for this entire Agreement and particularly for the releases set forth in paragraph 4, 9 and 10 below, IES will pay Harris a severance payment of \$61,250.00 (less applicable state and federal taxes, Medicare, FICA and other customary deductions) as set out in paragraph 6 below. This severance payment will be paid in the form of base salary continuation in accordance with IES Management, L.P.'s regular payroll schedule and will begin following receipt of the Mutual Agreement and Release by the Company and upon satisfaction of the revocation period. Salary continuation payments shall be made until the full severance benefit has been paid. Additionally, IES will pay the cost of continuing medical and dental health care coverage for herself and eligible dependents under COBRA for a period of six (6) months.

Harris agrees that IES may retain any amounts owed to IES and credit it to any amounts owed to IES from Harris. Such credited amounts will be considered paid to Harris for the purpose of this Agreement and will not affect the validity of this Agreement and the releases contained herein. Harris acknowledges that the severance payment constitutes good and valuable consideration for the promises, releases, waivers and assignments contained in this

Agreement. The severance payment set forth in this paragraph includes the severance amount due to Harris under any contract, plan, policy, practice or guideline of IES. **Harris agrees that, if she does not sign and return the Agreement and Release form on or before January 6, 2005, IES is not required to pay any sum as severance.**

The final payment for all work and services provided by Harris before the Separation Date has been paid separately and such payment has fully satisfied all obligations for compensation that IES owed to Harris through such date.

### **3. Other Benefit and Compensation Plans**

This Agreement does not affect any previously vested rights to funds or benefits under the IES welfare or benefit plans. All benefits and distributions under those plans will be paid according to the terms and conditions of those plans. IES agrees that Harris may exercise any presently vested and exercisable stock options according to the terms and provisions of the relevant stock option plan, provided she does not have insider information.

**PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES A  
COMPLETE RELEASE OF ALL KNOWN AND UNKNOWN  
CLAIMS.**

### **4. Release and Waiver**

As a material inducement to IES to enter into this Agreement and the severance benefit payment discussed in paragraph 2 above, Margery M. Harris, on behalf of herself and her heirs and assigns, does hereby **RELEASE, ACQUIT, AND FOREVER DISCHARGE** Integrated Electrical Services, Inc., its successors, present and former employees, agents, corporate officers, directors, corporate affiliates and all other persons, firms, corporations and any other entity or person ("the parties released"), of and from any and all liability of any kind and character, including attorney's fees, whatsoever arising from, growing out of, or in any way connected with her employment with IES or separation there from or the negligent or intentional acts, statements or omissions of the parties released at any time up to and including the date of execution of this Agreement. Harris declares that it is her intention to fully release IES and all of the parties released from any and all liability of any kind and character whatsoever arising from, growing out of, or in any way connected with her employment with IES or separation there from including, but not limited to, known and unknown claims, in negligence, contract or in tort, which arose at any time prior to the execution of this Agreement, under any Federal or State statute including, but not limited to, the Age Discrimination in Employment Act, as amended, 29 U.S.C. §§ 621—634; Older Workers Benefit Protection Act, as amended, 29 U.S. §§ 621, 623; Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. §§ 2000e—2000e-17; the Fair Labor Standards Act of 1938 as amended; the Equal Pay Act of 1963, as amended, 29 U.S.C. §§ 206(d); the Employee Retirement Income Security Act of 1974, as amended, 29 U.S.C. §§ 1001—1461; the Worker Adjustment and Retraining Notification Act, as amended, 29 U.S.C. § 2101 et seq.; the National Labor Relations Act, as amended, 29 U.S.C. §§ 151—169; Family and Medical Leave Act of 1993, as amended, 29 U.S.C. § 825 et seq. Americans with Disability Act of 1990, as amended, 42 U.S.C. §§ 12101 et. seq.; infliction of emotional distress, defamation,

personal injury, breach of contract, the Texas Commission on Human Rights Act; Tex. Lab. Code §§ 21.001—21.405; the Civil Law of the State of Texas; and the statutory and common law of these United States, collectively and singularly.

This is a full and final release, without limitation, of all known, unknown, and suspected claims. This complete release is intended to be for the benefit of the parties released. Harris waives all rights to re-employment, reinstatement or independent contractor status with IES and agrees not to apply for re-employment, reinstatement or future employment with IES. The preceding sentence does not restrict IES from contacting Harris for future employment or independent contractor services. This Agreement is not intended to and does not affect the rights, if any, that Harris may have for medical plan reimbursements, unemployment compensation or presently pending worker's compensation claims.

#### **5. Indemnification**

As a further part of this Agreement, Harris hereby agrees to indemnify and hold the parties released harmless from and against any and all loss, costs, damages, or expenses, including, without limitation, attorney's fees, incurred by the parties released and arising out of any negligent or intentional breach of the Agreement by Harris or because any of the representations made herein by Harris were false when made. Harris also hereby assigns to the parties released all causes of actions she or her heirs or assigns may have arising from her employment or termination thereof.

#### **6. Review and Revocation of Release; Effective Date**

Harris acknowledges that she has had a full and fair opportunity to review this Agreement and has been allowed at least twenty-one (21) ("Review Period") days to consider whether to accept the benefits of the Agreement in return for the release. Harris hereby certifies and represents that the decision to execute this Agreement was made after adequate reflection concerning the purposes and effects of this Agreement, and was not coerced by the parties released or anyone acting on their behalf or in concert with them. Harris represents that she understands the reasons for her employment termination and has had the opportunity to fully consider the terms, contents and conditions of this Agreement. Consequently, Harris has fully informed herself and warrants and represents that she knowingly and voluntarily executed this Agreement after her separation from employment with IES. The waivers contained herein are not intended to release any claims arising after the full execution of this Agreement.

Harris and IES agree that she shall have seven (7) calendar days (the "Revocation Period") following the date she executes this Agreement to revoke her acceptance of this Agreement and the Release set forth in paragraph 4 of this Agreement. Harris and IES agree and acknowledge that a revocation of this Agreement must be received before the expiration of the Revocation Period to H. Roddy Allen; 1800 West Loop South, Suite 500, Houston, Texas 77027. This Agreement will become effective, binding and irrevocable upon signing this agreement. Severance payment, in the form of lump sum amount and base salary continuation will commence on or after the 8<sup>th</sup> day following IES's receipt of a completely executed copy of this Agreement.



## **7. Confidentiality of Agreement**

Harris agrees that the terms and conditions of this Agreement shall be treated as confidential, and agrees not to disclose such terms and conditions to any third party. The preceding sentence shall not be applicable to disclosure or discussion with representatives of the Internal Revenue Service or the Social Security Administration, Harris's immediate family members or professionals from whom legal or financial advice is sought (provided they are instructed and agree to keep the information confidential), or as otherwise required by law.

## **8. Confidentiality of Information**

Harris acknowledges that while she was employed by IES, Harris had access to confidential business information of IES and its subsidiaries and affiliated companies, including technical ideas; concepts and information; business strategies; long-term and short-term goals; business opportunities; and financial data and other business information (cumulatively referred to herein as IES's "Proprietary Information"). Harris represents to IES that she has returned to IES all documents and things (including magnetic media) belonging to IES, including all documents embodying or containing any of IES's Proprietary Information. Harris acknowledges her continuing obligation to maintain in confidence IES's Proprietary Information and to refrain from using such Proprietary Information or disclosing it to any other person, company or entity. Harris agrees not to communicate with any third party (including reporters, editors, and employees of trade publications, newspapers, magazines, etc.) concerning any matter involving the IES's business and/or confidential information or Proprietary Information.

Harris agrees that she further agree they will not now and will not in future disparage either parties name, reputation or business, IES Integrated Electrical Services, Inc. or of its officers, directors, affiliates or employees to any third party particularly including any customers or vendors. This non-disparagement includes an agreement to not participate or cooperate in any litigation contrary to the interest of IES, Integrated Electrical Services, Inc. or any of its subsidiaries, to the degree allow by law. If any governmental or private entity requests any information or statement about the Company or its officers, directors, affiliates or employees, Harris will give the Company immediate notice of such request to allow the Company to defend against the disclosure of such information.

## **9. Transition and Cooperation**

Upon IES's reasonable request, Employee agrees to cooperate fully and consult with IES, their officers and employees, at all times concerning her former areas of responsibility. This obligation includes, without limitation, full and good faith cooperation with IES and their officers, employees and/or attorneys concerning any litigation where Employee is or may be a witness or have relevant information.

## **10. Non-Solicitation Obligations**

In addition to any other similar obligation owed by Employee agrees that for a period of six (6) months from the Separation Date, she shall not, directly or indirectly, for herself or for others' solicit, request or induce (i) any employee of IES or any of its subsidiaries or affiliated companies to terminate her employment with the IES or such subsidiaries or affiliates, or (ii) any customer, contractor or representative having a business relationship with IES or any of its subsidiaries or affiliated companies to alter, affect, modify, change, diminish or terminate such business relationship; or retain, hire or otherwise employ any individual who was employed by IES as of the Separation Date. As used herein, the term "subsidiary or affiliated IES shall mean an entity that directly or indirectly controlled by or under the common control of IES.

Further, Harris agrees the following provisions of her employment agreement dated October 2, 2003 shall survive: Non-Competition, Return of Company Property, Inventions, Trade Secrets, and Confidentiality.

## **11. Miscellaneous**

The provisions of the Agreement are severable, and if any part of it is found to be unlawful or unenforceable, then such part will be deemed changed or deleted to the minimal extent necessary to make the entire Agreement lawful and enforceable. The other provisions of this Agreement shall remain fully valid and enforceable to the maximum extent consistent with applicable law.

Harris acknowledges and agrees (i) she is responsible for any tax liability that may result as a consequence of the receipt of the severance benefits described herein, (ii) IES makes no representation of the taxability of these funds and (iii) IES has encouraged her to seek advice from a personal tax advisor regarding the duty and manner to report any possible tax consequences. The money paid under this Agreement does not come from a qualified retirement plan and therefore it may not be rolled into any other qualified plan or Individual Retirement Account.

Harris represents and agrees that she: (i) was specifically advised to and fully understands her rights to discuss all aspects of this Agreement with an attorney, her immediate family and financial counselor, (ii) has, to the extent she desires, availed herself of these rights, (iii) has carefully read and fully understands all the provisions of this Agreement, and (iv) has entered into and executed this Agreement knowingly and without duress or coercion from any source.

Harris understands and agrees that this Agreement may not be used as evidence in any proceeding against the parties released except in a proceeding based solely upon a specific allegation that the parties released have breached this Agreement or in a proceeding in which either party presents testimony about matters covered by this Agreement. The parties released believe and assert that Harris has been treated in a fair and lawful manner, and it is agreed between the parties that nothing herein is intended or shall be construed as an admission of fault or liability by the parties released.

Harris understands and agrees that this Agreement is being executed by IES on behalf of itself, and its corporate affiliates and that all of the rights of IES under this Agreement and all of Harris's obligations and duties under this Agreement will inure to the benefit of and may be enforced by IES, or any of their affiliates or any of the parties released.

This Agreement sets forth the entire agreement between the parties and fully supersedes all prior written and oral agreements, understandings and representations between the parties. Harris represents, warrants and agrees that she does not rely and has not relied upon any representation or statement made by any officer, director, agent or representative of IES, or any subsidiary or affiliate of IES with regard to the subject matter, background or effect of this Agreement, except as expressly set forth in this Agreement.

This Agreement shall be governed and construed under the laws of the State of Texas. Any legal proceeding arising as a result of or relating to this Agreement, Harris's employment or separation shall be filed and heard in the City of Houston, Harris County, Texas without regard to conflicts of law.

This Agreement is executed in duplicate originals and is effective and enforceable only after both parties have signed the Agreement and an original executed Agreement has been returned to IES. Harris acknowledges that she has read this Agreement, has understood it and knowingly and voluntarily desires to sign it.

**Accepted, Understood and Agreed**

**IES Management, L.P.  
By: IES Residential Group, Inc.  
Its Managing General Partner**

\_\_\_\_\_/S/ MARGERY M. HARRIS\_\_\_\_\_  
Margery M. Harris

By: \_\_\_\_\_/S/ H. RODDY ALLEN\_\_\_\_\_  
H. Roddy Allen

Date: \_\_\_\_\_ December 15, 2004 \_\_\_\_\_

Title: \_\_\_\_\_ President & Chief Executive Officer \_\_\_\_\_

Date: \_\_\_\_\_ December 15, 2004 \_\_\_\_\_

## CERTIFICATION

I, Herbert R. Allen, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Integrated Electrical Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 11, 2005

/s/ HERBERT R. ALLEN

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Herbert R. Allen  
Chief Executive Officer

## CERTIFICATION

I, David A. Miller, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Integrated Electrical Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 11, 2005

/s/ DAVID A. MILLER

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David A. Miller  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Integrated Electrical Services, Inc. (the "Company") on Form 10-Q/A for the period ending December 31, 2004 (the "Report"), I, Herbert R. Allen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ HERBERT R. ALLEN

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Herbert R. Allen  
Chief Executive Officer

April 11, 2005

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with this Quarterly Report of Integrated Electrical Services, Inc. (the "Company") on Form 10-Q/A for the period ending December 31, 2004 (the "Report"), I, David A. Miller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ DAVID A. MILLER

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David A. Miller  
Chief Financial Officer

April 11, 2005