

INTEGRATED ELECTRICAL SERVICES INC

Form 10-Q/A

May 29, 2007

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

**FORM 10-Q/A
Amendment No. 1**

(Mark One)

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

For the Quarterly Period Ended June 30, 2006

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

**INTEGRATED ELECTRICAL SERVICES, INC.
(Exact name of registrant as specified in its charter)**

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

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

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

**77027-3233
(zip code)**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes NO

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes NO

The number of shares outstanding as of August 8, 2006 of the issuer's common stock was 15,418,357.

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Explanatory Note

On August 9, 2006, Integrated Electrical Services, Inc. (the "Company") filed its Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (the "Original Quarterly Report"). The Company is filing this Amendment No. 1 to its Original Quarterly Report to correct a misstatement for inventory at one of the Company's subsidiaries for the one and seven months ended April 30, 2006 (Predecessor) and the two months ended June 30, 2006 (Successor).

The misstatement of inventory understated cost of services on the Consolidated Statement of Operations by \$0.2 million for the seven months ended April 30, 2006 and the two months ended June 30, 2006. Reorganization items were understated by \$0.2 million for the seven months ended April 30, 2006. On the Consolidated Statements of Operations, net income from continuing operations and net income increased by \$0.2 million for the one month ended June 30, 2006. On the Consolidated Balance Sheet at June 30, 2006, accounts receivable and goodwill were understated by \$0.5 million and \$0.2 million, respectively and inventory and stockholders' equity were overstated by \$0.9 million and \$0.2 million, respectively. There was no effect on net cash flows from operating, investing or financing activities. In addition, during the financial reporting process for the restatement of these quarterly financial statements and subsequent to the filing of the Company's Form 10-K for the year ended September 30, 2006, the Company determined there were items that required reclassification between continuing and discontinued operations

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related to the three and nine months ended June 30, 2005, the one and seven months ended April 30, 2006 (Predecessor) and the two months ended June 30, 2006 (Successor). There was no impact to the overall financial results of the Company.

The Items of this Amendment No. 1 to the Original Quarterly Report which are amended and restated are as follows: Item 1 Financial Statements (including Note 3, Fresh Start Accounting; Note 4, Reorganization Items; Note 5, Business Divestitures; Note 7, Earnings Per Share; Note 8, Operating Segments and Note 9, Intangible Assets, to the Consolidated Financial Statements), Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 4 Controls and Procedures. A new Note 2, Restatement of Quarterly Financial Statements, has been added to Item 1 in this Amendment No. 1. Further, this Form 10-Q/A contains new Exhibits 31.1, 31.2, 32.1 and 32.2 dated the date of the filing of this Form 10-Q/A.

The remaining Items contained within this Form 10-Q/A consist of all other Items originally contained in the Original Quarterly Report. This Form 10-Q/A does not reflect events occurring after the filing of the Original Quarterly Report, nor modifies or updates those disclosures in any way other than as required to reflect the effects of the restatement.

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Unless the context otherwise indicates, all references in this report to IES, the Company, we, us, or our are to Integrated Electrical Services, Inc. and its subsidiaries.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q/A includes certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, all of which are based upon various estimates and assumptions that the Company believes to be reasonable as of the date hereof. These statements involve risks and uncertainties that could cause the Company's actual future outcomes to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

the Company's inability to negotiate acceptable terms of and enter into bonding facilities at the expiration of the existing bonding facility with Federal Insurance Company;

potential difficulty in fulfilling the restrictive terms of, and the high cost of, the Company's credit facilities and term loan

the Company's ability to continue as a going concern;

the Company's ability to meet debt service obligations and related financial and other covenants, and the possible resulting material default under the Company's credit agreements which is not waived or rectified;

limitations on the availability of sufficient credit or cash flow to fund working capital;

limitations on the availability and the increased costs of surety bonds required for certain projects;

inability to reach agreements with the Company's surety companies to provide sufficient bonding capacity or inability to reach agreement with the Company's customers to accept alternative bonding companies or arrangements in lieu of a bond;

risk associated with failure to provide surety bonds on jobs where the Company has commenced work or is otherwise contractually obligated to provide surety bonds;

the inherent uncertainties relating to estimating future operating results and the Company's ability to generate sales, operating income, or cash flow;

potential difficulty in addressing a material weakness in the Company's internal controls that has been identified by the Company and its independent auditors;

fluctuations in operating results because of downturns in levels of construction, seasonality and differing regional economic conditions;

fluctuations in financial results from operations caused by the increases in and fluctuations of pricing of commodities used in the Company's business of copper, steel, gasoline and certain plastics.

general economic and capital markets conditions, including fluctuations in interest rates that affect construction;

inaccurate estimates used in entering into and executing contracts;

inaccuracies in estimating revenue and percentage of completion on contracts;

difficulty in managing the operation of existing entities;

the high level of competition in the construction industry both from third parties and ex-employees;

increases in costs or limitations on availability of labor, especially qualified electricians;

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accidents resulting from the numerous physical hazards associated with the Company's work and the number of miles of driving of company vehicles with the level of exposure to vehicle accidents;

loss of key personnel;

business disruption and costs associated with the Securities and Exchange Commission investigation, class action or shareholder derivative action now pending;

litigation risks and uncertainties, including in connection with the ongoing SEC investigation;

unexpected liabilities or losses associated with warranties or other liabilities attributable to the retention of the legal structure or retained liabilities of business units where the Company has sold substantially all of the assets;

difficulties in integrating new types of work into existing subsidiaries;

inability of the Company to incorporate new accounting, control and operating procedures and consolidations of back office functions;

the loss of productivity, either at the corporate office or operating level;

disruptions or inability to effectively manage internal growth or consolidations;

the residual effect with customers and vendors from the bankruptcy process leading to less work or less favorable delivery or credit terms;

the delayed effect of fewer or smaller new projects awarded to the Company during the bankruptcy and its effect on future financial results;

the lowered efficiency and higher costs associated with projects at subsidiaries that the Company has determined to wind down or close;

the loss of employees during the bankruptcy process and the winding down of subsidiaries; and

distraction of management time in winding down and closing subsidiaries.

You should understand that the foregoing, as well as other risk factors discussed in this document, including those listed in Part II, Item 1A, of this report under the heading "Risk Factors," and in our annual report on Form 10-K for the year ended September 30, 2005, could cause future outcomes to differ materially from those expressed in such forward looking statements. We undertake no obligation to publicly update or revise information concerning the Company's restructuring efforts, borrowing availability, or its cash position or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this Form 10-Q/A pursuant to the safe harbor established under the private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties, and risks described herein.

General information about us can be found at www.ies-co.com under "Investor Relations." Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the Securities and Exchange Commission or you may contact our Investor Relations department and they will provide you with a copy.

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

	Predecessor September 30, 2005 (Audited)	Successor June 30, 2006 (Unaudited) (Restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 28,349	\$ 10,938
Restricted cash	9,596	
Accounts receivable:		
Trade, net of allowance of \$2,925 and \$2,251, respectively	141,824	150,680
Retainage	33,878	32,359
Costs and estimated earnings in excess of billings on uncompleted contracts	17,699	19,623
Inventories	21,572	25,387
Prepaid expenses and other current assets	22,271	28,587
Assets held for sale associated with discontinued operations	75,233	35,120
Total current assets	350,422	302,694
PROPERTY AND EQUIPMENT, net	24,266	28,140
GOODWILL	24,343	14,832
RESTRICTED CASH		20,000
OTHER NON-CURRENT ASSETS, net	13,823	12,233
Total assets	\$ 412,854	\$ 377,899
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 32	\$ 24
Accounts payable and accrued expenses (including \$3,872 and \$0 in accrued interest subject to compromise, respectively)	100,570	108,368
Billings in excess of costs and estimated earnings on uncompleted contracts	26,868	28,981
Liabilities related to assets held for sale associated with discontinued operations	31,691	12,951
Senior convertible notes, net (subject to compromise)	50,691	
Senior subordinated notes, net (subject to compromise)	173,134	
Total current liabilities	382,986	150,324
LONG-TERM DEBT, net of current maturities	27	125
TERM LOAN		53,909
OTHER NON-CURRENT LIABILITIES	13,982	14,588
Total liabilities	396,995	218,946
 COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS EQUITY:

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, none issued and outstanding		
Predecessor common stock, \$0.01 par value, 100,000,000 shares authorized, 39,024,209 and 0 shares issued, respectively	390	
Predecessor restricted voting common stock, \$0.01 par value, 2,605,709 and 0 shares issued, authorized and outstanding, respectively	26	
Successor common stock, \$0.01 par value, 100,000,000 shares authorized and 0 and 15,335,285 shares issued and outstanding, respectively		153
Treasury stock, at cost, 2,416,377 and 0 shares, respectively	(13,022)	
Unearned restricted stock	(1,183)	
Additional paid-in capital	430,996	160,710
Retained deficit	(401,348)	(1,910)
Total stockholders equity	15,859	158,953
Total liabilities and stockholders equity	\$ 412,854	\$ 377,899

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

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

	Nine Months Ended June 30, 2005 (Unaudited)	Predecessor Seven Months Ended April 30, 2006 (Unaudited) (Restated)	Successor Two Months Ended June 30, 2006 (Unaudited) (Restated)
Revenues	\$ 644,330	\$ 530,381	\$ 169,247
Cost of services	545,854	449,706	145,410
Gross profit	98,476	80,675	23,837
Selling, general and administrative expenses	93,860	70,311	21,543
Income from operations	4,616	10,364	2,294
Reorganization items (Note 4)		(27,663)	436
Other (income) expense:			
Interest expense, net	20,877	14,929	1,474
Other, net	1,036	(596)	(29)
Interest and other expense, net	21,913	14,333	1,445
Income (loss) from continuing operations before income taxes	(17,297)	23,694	413
Provision for income taxes	7,981	758	8
Net income (loss) from continuing operations	(25,278)	22,936	405
Discontinued operations (Note 5) Loss from discontinued operations (including gain (loss) on disposal of \$(506), \$707 and \$237, respectively)	(25,052)	(15,148)	(2,315)
Benefit for income taxes	(5,581)		
Net loss from discontinued operations	(19,471)	(15,148)	(2,315)
Net income (loss)	\$ (44,749)	\$ 7,788	\$ (1,910)
Basic earnings (loss) per share:			
Continuing operations	\$ (1.69)	\$ 1.53	\$ 0.03
Discontinued operations	\$ (1.30)	\$ (1.01)	\$ (0.15)

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Total	\$	(2.99)	\$	0.52	\$	(0.13)
Diluted earnings (loss) per share:						
Continuing operations	\$	(1.69)	\$	1.49	\$	0.03
Discontinued operations	\$	(1.30)	\$	(0.98)	\$	(0.15)
Total	\$	(2.99)	\$	0.51	\$	(0.12)
Shares used in the computation of earnings (loss) per share (Note 7):						
Basic		14,970,502		14,970,502		14,970,502
Diluted		14,970,502		15,373,969		15,373,969

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

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

	Predecessor		Successor
	Three Months Ended June 30, 2005 (Unaudited)	One Month Ended April 30, 2006 (Unaudited) (Restated)	Two Months Ended June 30, 2006 (Unaudited) (Restated)
Revenues	\$ 223,217	\$ 75,477	\$ 169,247
Cost of services	187,058	63,805	145,410
Gross profit	36,159	11,672	23,837
Selling, general and administrative expenses	33,117	10,047	21,543
Income from operations	3,042	1,625	2,294
Reorganization items (Note 4)		(39,774)	436
Other (income) expense:			
Interest expense, net	7,592	1,462	1,474
Other, net	365	(943)	(29)
Interest and other expense, net	7,957	519	1,445
Income (loss) from continuing operations before income taxes	(4,915)	40,880	413
Provision (benefit) for income taxes	4,259	(4,918)	8
Net income (loss) from continuing operations	(9,174)	45,798	405
Discontinued operations (Note 5)			
Loss from discontinued operations (including gain (loss) on disposal of \$(270), \$242 and \$237, respectively)	(7,575)	(2,123)	(2,315)
Provision (benefit) for income taxes	(2,834)	4,966	
Net loss from discontinued operations	(4,741)	(7,089)	(2,315)
Net income (loss)	\$ (13,915)	\$ 38,709	\$ (1,910)
Basic earnings (loss) per share:			
Continuing operations	\$ (0.61)	\$ 3.06	\$ 0.03
Discontinued operations	\$ (0.32)	\$ (0.47)	\$ (0.15)
Total	\$ (0.93)	\$ 2.59	\$ (0.13)

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Diluted earnings (loss) per share:						
Continuing operations	\$	(0.61)	\$	2.98	\$	0.03
Discontinued operations	\$	(0.32)	\$	(0.46)	\$	(0.15)
Total	\$	(0.93)	\$	2.52	\$	(0.12)
Shares used in the computation of earnings (loss) per share (Note 7):						
Basic		14,970,502		14,970,502		14,970,502
Diluted		14,970,502		15,373,969		15,373,969

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

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

	Old Common Stock		New Common Stock		Restricted Voting Common Stock		Treasury Stock		Unearned Additional		Retained Stock Deficit	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Restricted Stock	Paid-In Capital		
CE, per 30,												
ssor)	39,024,209	\$ 390			2,605,709	\$ 26	(2,416,377)	\$(13,022)	\$(1,183)	\$ 430,996	\$(401,348)	\$
of												
ed)	25,717									26		
of												
l stock							161,787	2,092		(2,161)		
ed)												
n of												
23R												
ed)									1,183	(1,183)		
n												
ation												
ed)										1,191		
me												
ed)												7,788
ization												
nts												
ed)	(39,049,926)	(390)	15,326,885	153	(2,605,709)	(26)	2,254,590	10,930		124,880		1
art												
nts												
ed)										(393,560)	393,560	
CE,												
2006												
or)												
ed)		\$	15,326,885	\$ 153		\$		\$	\$	\$ 160,189	\$	\$
of												
ed)			8,400									
n												
ation												
ed)										521		
ed)												(1,910)
d)		\$	15,335,285	\$ 153		\$		\$	\$	\$ 160,710	\$	(1,910) \$

CE,
2006
(or)
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d)

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

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

	Predecessor	Successor	
	Nine	Seven	
	Months	Months	
	Ended	Ended	
	June 30,	April 30,	
	2005	2006	
	(Unaudited)	(Unaudited)	
		(Restated)	
		Two Months	
		Ended	
		June 30,	
		2006	
		(Unaudited)	
		(Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (44,749)	\$ 7,788	\$ (1,910)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Net loss from discontinued operations	19,471	15,148	2,315
Bad debt expense	1,475	818	478
Deferred financing cost amortization	3,970	6,345	1,217
Depreciation and amortization	6,345	4,036	1,388
Impairment of long-lived assets	70	304	
Goodwill impairment		(194)	
Loss (gain) on sale of property and equipment	(35)	107	(71)
Non-cash compensation expense	1,011	1,219	909
Non-cash paid-in-kind interest added to term loan			521
Non-cash interest charge for embedded conversion option	734		
Reorganization items		(42,023)	
Equity in losses of investment	1,083		
Deferred income tax	848	6	(279)
Changes in operating assets and liabilities, net of the effect of discontinued operations:			
Accounts receivable	4,714	3,037	(11,669)
Inventories	(5,107)	(1,892)	(1,923)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,707	(2,601)	677
Prepaid expenses and other current assets	(9,285)	(1,731)	(1,110)
Other non-current assets	(357)	(846)	(1,446)
Accounts payable and accrued expenses	(166)	15,158	6,972
Billings in excess of costs and estimated earnings on uncompleted contracts	2,572	35	2,078
Other current liabilities	1,512		
Other non-current liabilities	(1,372)	542	296
Net cash provided by (used in) continuing operations	(14,559)	5,256	(1,557)
Net cash provided by (used in) discontinued operations	10,434	(2,475)	(229)
Net cash provided by (used in) operating activities	(4,125)	2,781	(1,786)
CASH FLOWS FROM INVESTING ACTIVITIES:			

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Proceeds from sales of property and equipment	1,368	257	130
Investments in securities	(400)	(450)	(300)
Purchases of property and equipment	(2,943)	(1,467)	(401)
Changes in restricted cash	(10,006)	(10,536)	132
Net cash used in investing activities of continuing operations	(11,981)	(12,196)	(439)
Net cash provided by investing activities of discontinued operations	36,729	5,671	242
Net cash provided by (used in) investing activities	24,748	(6,525)	(197)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings of debt	9,707	53,021	
Borrowings on Senior Convertible Notes	50,000		
Repayments of debt	(67,721)	(50,030)	(9)
Issuance of common stock	40		
Payments for debt issuance costs	(4,307)	(3,503)	(4,043)
Payments for reorganization items including debt restructure costs		(7,120)	
Proceeds from issuance of stock under employee stock purchase plan	254		
Proceeds from exercise of stock options	625		
Net cash used in financing activities of continuing operations	(11,402)	(7,632)	(4,052)
Net cash provided by (used in) financing activities of discontinued operations	65		
Net cash used in financing activities	(11,337)	(7,632)	(4,052)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	9,286	(11,376)	(6,035)
CASH AND CASH EQUIVALENTS, beginning of period	22,232	28,349	16,973
CASH AND CASH EQUIVALENTS, end of period	\$ 31,518	\$ 16,973	\$ 10,938
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for			
Interest	\$ 11,241	\$ 3,125	\$ 402
Income taxes	761	971	178
Assets acquired under capital lease		111	

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

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

	Predecessor	Successor	
	Three	Two Months	
	Months	Ended	
	Ended	June 30,	
	June 30,	April 30,	
	2005	2006	
	(Unaudited)	(Unaudited)	
		(Restated)	
		(Restated)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (13,915)	\$ 38,709	\$ (1,910)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Net (income) loss from discontinued operations	4,741	7,089	2,315
Bad debt expense	676	307	478
Deferred financing cost amortization	2,279	1,172	1,217
Depreciation and amortization	1,489	551	1,388
Goodwill impairment		(194)	
Loss on sale of property and equipment	(34)	1	
Non-cash compensation expense	388	632	(71)
Non-cash paid-in-kind interest added to term loan			909
Non-cash interest charge for embedded conversion option			521
Reorganization items		(45,983)	
Equity in losses of investment	512		
Deferred income tax expense	168	(545)	(279)
Changes in operating assets and liabilities, net of the effect of discontinued operations:			
Accounts receivable	(1,884)	(808)	(11,669)
Inventories	(2,761)	(988)	(1,923)
Costs and estimated earnings in excess of billings on uncompleted contracts	4,541	(3,961)	677
Prepaid expenses and other current assets	59	351	(1,110)
Other non-current assets	115	(621)	(1,446)
Accounts payable and accrued expenses	2,896	6,535	6,972
Billings in excess of costs and estimated earnings on uncompleted contracts	2,064	4,245	2,078
Other current liabilities	1,812		
Other non-current liabilities	(1,303)	3	296
Net cash provided by (used in) continuing operations	1,843	6,495	(1,557)
Net cash used in discontinued operations	(2,863)	(7,300)	(229)
Net cash used in operating activities	(1,020)	(805)	(1,786)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of property and equipment	1,199	36	130

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Investments in securities			(300)
Purchases of property and equipment	(1,285)	(87)	(401)
Changes in restricted cash	(10,006)	(72)	132
Net cash used in investing activities of continuing operations	(10,092)	(123)	(439)
Net cash provided by (used in) investing activities of discontinued operations	13,037	(4)	242
Net cash provided by (used in) investing activities	2,945	(127)	(197)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings of debt		53,000	
Repayments of debt	(2,283)	(50,009)	(9)
Payments for debt issuance costs	(431)	(2,094)	
Payments for reorganization items including debt restructure costs	(65)	(1,126)	(4,043)
Net cash used in financing activities of continuing operations	(2,779)	(229)	(4,052)
Net cash provided by (used in) financing activities of discontinued operations	(12)		
Net cash used in financing activities	(2,791)	(229)	(4,052)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(866)	(1,161)	(6,035)
CASH AND CASH EQUIVALENTS, beginning of period	32,384	18,134	16,973
CASH AND CASH EQUIVALENTS, end of period	\$ 31,518	\$ 16,973	\$ 10,938
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for			
Interest	\$ 1,430	\$ 196	\$ 402
Income taxes	146	5	178

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(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.

Voluntary Reorganization Under Chapter 11

On February 14, 2006 (the Commencement Date), the Company and all of its domestic subsidiaries (collectively, the Debtors) filed voluntary petitions for reorganization (the Chapter 11 Cases) under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the Bankruptcy Court). The Bankruptcy Court jointly administered these cases as In re Integrated Electrical Services, Inc. et. al., Case No. 06-30602-BJH-11 . On April 26, 2006 (the Confirmation Date), the Bankruptcy Court entered an order approving and confirming the plan of reorganization (the Plan). The Plan was filed as Exhibit 2.1 to the Company s current report on Form 8-K, filed on April 28, 2006. Capitalized terms used in this section but not defined herein shall have the meaning set forth in the Plan. The Debtors operated their businesses and managed their properties as debtors-in-possession in accordance with the Bankruptcy Code from the Commencement Date through May 12, 2006 (the Exit Date).

Basis of Presentation

The accompanying unaudited Condensed Consolidated Interim Financial Statements (the Financial Statements) of the Company have been prepared in accordance with accounting principles generally accepted in the United States including Statement of Position 90-7 *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7) and Article 10 of Regulation S-X in accordance with interim SEC rules. 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 on Form 10-K for the year ended September 30, 2005, filed with the Securities and Exchange Commission.

SOP 90-7 requires the Company to, among other things, (1) identify and disclose separately transactions that are directly associated with the bankruptcy proceedings from those events that occur during the normal course of business, (2) segregate pre-petition liabilities subject to compromise from those that are not subject to compromise or post-petition liabilities, and (3) assess the applicability of fresh-start accounting upon emergence from bankruptcy (see Note 3). During the reorganization, the Company s only liabilities that were subject to compromise include 1) the \$173 million 9 3/8% senior subordinated notes due 2009 and the related accrued interest, 2) the \$50 million 6.5% senior convertible notes due 2014 and related accrued interest and 3) certain facility lease agreements. In addition, the Company discontinued accruing interest on the senior subordinated notes as of the Commencement Date.

In accordance with SOP 90-7, the Company adopted fresh-start accounting as of April 30, 2006. Fresh-start accounting requires that the reporting entity allocate the reorganization value of the Company to its assets and liabilities in a manner similar to that which is required under Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Under the provisions of fresh-start accounting, a new entity has been deemed created for financial reporting purposes. References to Successor in the Financial Statements and the notes thereto refer to the Company on and after May 1, 2006. References to Predecessor in the Financial Statements and notes thereto refer to the Company through April 30, 2006 including the impact of Plan provisions and the adoption of fresh-start reporting. As a result of implementing fresh-start accounting, the consolidated interim financial statements for the Successor are not comparable to the consolidated interim financial statements of the Predecessor. For further information on fresh-start accounting see Note 3.

In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Actual operating results for the periods presented are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2006.

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Going Concern and Liquidity

The Company's independent registered public accounting firm, Ernst & Young LLP, included a going concern modification in its audit opinion on the consolidated financial statements for the fiscal year ended September 30, 2005 included in the Company's Annual Report on Form 10-K as a result of its operating losses during fiscal 2005 and the non-compliance with certain debt covenants subsequent to September 30, 2005. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

The Company emerged from bankruptcy on May 12, 2006. Subsequent to the Exit Date, the Company has evaluated its ability to generate sufficient cash flow and profitability from operations. It believes that, barring any unexpected event that would materially and adversely affect its financial condition, the Company's cash on hand and available borrowings under the \$80 million revolving credit facility (the Credit Facility) will be sufficient to fund debt service requirements, working capital and capital expenditures through at least the next twelve months. For a more detailed discussion of the Credit Facility see Note 6. The Company cannot make any assurances, however, that it will be able to generate sufficient cash flow from operations in amounts sufficient to pay indebtedness and fund other liquidity needs.

The Plan of Reorganization

The Plan was approved by the Bankruptcy Court on the Confirmation Date. Pursuant to the Plan:

- (i) The holders of the senior subordinated notes received on the Exit Date, in exchange for their total claims (including principal and interest), 82% of the fully diluted new common stock representing 12,631,421 million shares, before giving effect to options to be issued under a new employee and director stock option plan (the 2006 Equity Incentive Plan) which could be up to 10% of the fully diluted shares of new IES common stock outstanding as of the effective date of the Plan.
- (ii) The holders of the Company's old common stock received 15% of the fully diluted new common stock representing 2,310,614 million shares, before giving effect to the 2006 Equity Incentive Plan.
- (iii) Certain members of management received restricted shares of new common stock equal to 2.5% of the fully diluted new common stock with an additional 0.5% reserved for new key employees, before giving effect to the 2006 Equity Incentive Plan. The restricted shares of new common stock vest over approximately a three year period.
- (iv) The \$50 million in senior convertible notes were refinanced from the proceeds of the \$53 million term loan (the Term Loan). See Note 6.
- (v) All other allowed claims were either paid in full in cash or reinstated.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a description of these policies, refer to Note 1 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, 2005.

As a result of the Chapter 11 bankruptcy proceedings, the Company prepared its financial statements in accordance with SOP 90-7 from the Commencement Date through April 30, 2006, the date of adoption of fresh-start reporting. SOP 90-7 requires the Company to, among other things, (1) identify and disclose separately transactions that are directly associated with the bankruptcy proceedings from those events that occur during the normal course of business, (2) segregate pre-petition liabilities subject to compromise from those that are not subject to compromise or post-petition liabilities, and (3) assess the applicability of fresh-start accounting upon emergence from bankruptcy.

NEW ACCOUNTING PRONOUNCEMENTS

In accordance with SOP 90-7, the Company is required to adopt all new accounting pronouncements upon emergence from bankruptcy, if issued prior to and have effective dates within one year of the date of adoption of fresh-start reporting. The Company adopted fresh-start reporting on April 30, 2006.

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In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – An Interpretation of FASB Statement No. 143* (FIN47). FIN47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143, *Accounting for Asset Retirement Obligations*, and addresses the diverse accounting practices that have developed with respect to the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and (or) method of settlement of the obligation are conditional on a future event. In addition, FIN47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company was required to adopt FIN47 upon the adoption of fresh-start accounting requirements under SOP 90-7. The adoption of FIN47 had no impact on the Company's consolidated financial statements.

In May 2005, FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154). This statement, which replaces APB Opinion No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*, requires that a voluntary change in accounting principle be applied retroactively to all prior period financial statements presented, unless it is impractical to do so. SFAS 154 also provides that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for as a change in estimate effected by a change in accounting principle, and also provides that corrections of errors in previously issued financial statements should be termed a restatement. The Company was required to adopt SFAS 154 upon the adoption of fresh-start accounting requirements under SOP 90-7. The adoption of SFAS 154 had no impact on the Company's consolidated financial statements.

In February 2006, FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* which is effective for fiscal years beginning after September 15, 2006. The statement was issued to clarify the application of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) to beneficial interests in securitized financial assets and to improve the consistency of accounting for similar financial instruments, regardless of the form of the instruments. The Company accounted for the Senior Convertible Notes, which were canceled upon emergence from bankruptcy, under SFAS 133. Upon emergence from bankruptcy, the Company did not have any derivative instruments or hedging activities that would be affected by either SFAS 133 or SFAS 155. The Company was required to adopt SFAS 155 upon the adoption of fresh-start accounting requirements under SOP 90-7. The adoption of SFAS 155 had no impact on the Company's consolidated financial statements.

In March 2006, FASB issued SFAS No. 156 *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140* (SFAS 156) effective for fiscal years beginning after September 15, 2006. SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The Company was required to adopt SFAS 156 upon the adoption of fresh-start accounting requirements under SOP 90-7. The adoption of SFAS 156 had no impact on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48) which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the potential impact, if any, this would have on its financial results for the fiscal year beginning October 1, 2007.

REVENUE RECOGNITION

As of June 30, 2005 and 2006, costs and estimated earnings in excess of billings on uncompleted contracts include unbilled revenues for certain significant gross claims totaling approximately \$3.8 million and \$4.0 million, respectively. In addition, accounts receivable as of June 30, 2005 and 2006 related to these claims is approximately \$2.2 million and \$1.0 million, respectively. Included in the claims amount at June 30, 2006 is approximately \$2.5 million, net of allowances, related to a single contract at one of our subsidiaries. This claim relates to a dispute

with the customer over defects in the customer's design specifications. The Company does not believe that it was required to remediate defects in the customer's design specifications. Nevertheless, the Company did remediate the design defects and now seeks to recover those additional costs among other items. Some or all of the costs, if any, may not be recoverable.

Table of Contents**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 and long-lived asset impairments and adjustments for fresh-start accounting, allowance for doubtful accounts receivable, assumptions regarding estimated costs to exit certain business units, realizability of deferred tax assets and self-insured claims liabilities and adjustments for fresh-start accounting.

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 the Company's business is less subject to seasonal trends, as this work generally is performed inside structures protected 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.

STOCK-BASED COMPENSATION

On October 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases related to the employee stock purchase plan (employee stock purchases) based on estimated fair values. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25) for periods beginning in fiscal 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of October 1, 2005, the first day of the Company's fiscal year 2006. The Predecessor's consolidated financial statements as of and for the one and seven months ended April 30, 2006 and the Successor consolidated financial statements reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for the one and seven months ended April 30, 2006 was \$0.7 million and \$1.2 million, respectively, before tax, which consisted of stock-based compensation expense related to employee stock options and restricted stock grants (see Note 7). Included in stock-based compensation for the one and seven months ended April 30, 2006 is \$0.6 million related to the early vesting of restricted stock granted in January 2005. The early vesting occurred as a result of the effective change of control as contemplated by the Plan. These restricted shares would have otherwise not vested until January 2007. Stock-based compensation for the two months ended June 30, 2006 was \$0.5 million before tax. There was no stock-based compensation expense related to employee stock options recognized during the three and nine months ended June 30, 2005. 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 10).

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the

intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Under the intrinsic value method, no stock-based compensation expense had been recognized in the Company s consolidated statement of operations because the exercise price of the Company s stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

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Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's consolidated statement of operations for the first quarter of fiscal 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of September 30, 2005 based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to September 30, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In conjunction with the adoption of SFAS 123(R), the Company changed its method of attributing the value of stock-based compensation expense related to stock options from the accelerated multiple-option approach to the straight-line single option method. As stock-based compensation expense recognized in the consolidated statement of operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred. Furthermore, under the modified prospective transition method, SFAS 123(R) requires that compensation costs recognized prior to adoption be reversed to the extent of estimated forfeitures and recorded as a cumulative effect of a change in accounting principle. The effect of this reversal was immaterial.

The Company's determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123(R)-3 *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

Predecessor Pro Forma Information Under SFAS 123 for Periods Prior to Fiscal 2006

The following table illustrates the effect on net income and earnings per share assuming the compensation costs for the Predecessor'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 and nine months ended June 30, 2005 (in thousands, except for per share data):

	Predecessor	
	Three months ended June 30, 2005	Nine months ended June 30, 2005
Net loss, as reported	\$ (13,915)	\$ (44,749)

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Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	413	1,042
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	608	1,446
Pro forma net loss for SFAS No. 123	\$ (14,110)	\$ (45,153)
Earnings (loss) per share:		
Basic as reported	\$ (0.93)	\$ (2.99)
Basic pro forma for SFAS No. 123	\$ (0.94)	\$ (3.02)
Earnings (loss) per share:		
Diluted as reported	\$ (0.93)	\$ (2.99)
Diluted pro forma for SFAS No. 123	\$ (0.94)	\$ (3.02)

Table of Contents**2. RESTATEMENT OF QUARTERLY FINANCIAL STATEMENTS**

During the financial statement reporting process for the year ended September 30, 2006, management determined that an error occurred, which warranted revision to the previously reported results for the quarters ended December 31, 2005, March 31, 2006 and June 30, 2006. The error was the result of a reconciling difference between the inventory general ledger account and inventory sub-ledger at one of the Company's subsidiaries. This error resulted in an overstatement of inventory, an understatement of vendor rebate receivable, an overstatement of selling, general and administrative expenses and an understatement of cost of services. The previous reported results have been revised for discontinued operations. In addition, during the financial statement reporting process for the restatement of these quarterly financial statements and subsequent to the filing of the Company's Form 10-K for the year ended September 30, 2006, the Company determined there were items that required reclassification between continuing and discontinued operations related to the three and nine months ended June 30, 2005, the one and seven months ended April 30, 2006 (Predecessor), and the two months ended June 30, 2006 (Successor). Those adjustments have been reflected in these financial statements. There was no impact to the overall financial results of the Company. As a result, the Company has reclassified these adjustments out of continuing operations and into discontinued operations. The tables below show the effects of all revisions to reported results on the Consolidated Balance Sheet as of June 30, 2006 and the Consolidated Statements of Operations for the one and seven months ended April 30, 2006 (Predecessor) and the two months ended June 30, 2006 (Successor) (in thousands). The restatement also impacted the Consolidated Statement of Stockholders' Equity and the Consolidated Statements of Cash Flows.

	Seven Months Ended April 30, 2006		
	Inventory		
	As Reported	Adjustments	As Restated
Consolidated Statement of Operations Data:			
Revenue	\$ 530,381	\$	\$ 530,381
Cost of services	449,505	201	449,706
Gross profit	80,876	(201)	80,675
Selling, general and administrative expenses	70,329	(18)	70,311
Income (loss) from operations	10,547	(183)	10,364
Reorganization items	(27,480)	(183)	(27,663)
Interest and other expense, net	14,333		14,333
Income (loss) from continuing operations before income taxes	23,694		23,694
Provision for income taxes	758		758
Net income (loss) from continuing operations	22,936		22,936
Income (loss) from discontinued operations	(15,148)		(15,148)
Provision (benefit) for income taxes			
Net income (loss) from discontinued operations	(15,148)		(15,148)
Net income (loss)	7,788		7,788
Basic earnings (loss) per share:			
Continuing operations	\$ 1.53	\$	\$ 1.53

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Discontinued operations	\$	(1.01)	\$	\$	(1.01)
Total	\$	0.52	\$	\$	0.52
Diluted earnings (loss) per share:					
Continuing operations	\$	1.49	\$	\$	1.49
Discontinued operations	\$	(0.98)	\$	\$	(0.98)
Total	\$	0.51	\$	\$	0.51
Shares used in the computation of earnings (loss) per share					
Basic		14,970,502		14,970,502	14,970,502
Diluted		15,373,969		15,373,969	15,373,969

Two Months Ended June 30, 2006

	Inventory		
	As Reported	Adjustments	As Restated
Consolidated Statement of Operations Data:			
Revenue	\$ 169,247	\$	\$ 169,247
Cost of services	145,196	214	145,410
Gross profit	24,051	(214)	23,837
Selling, general and administrative expenses	21,561	(18)	21,543
Income (loss) from operations	2,490	(196)	2,294
Reorganization items	436		436
Interest and other expense, net	1,445		1,445
Income (loss) from continuing operations before income taxes	609	(196)	413
Provision for income taxes	8		8

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	Two Months Ended June 30, 2006		
	Inventory		
	As Reported	Adjustments	As Restated
Net income (loss) from continuing operations	601	(196)	405
Loss from discontinued operations	(2,315)		(2,315)
Provision (benefit) for income taxes			
Net loss from discontinued operations	(2,315)		(2,315)
Net loss	(1,714)	(196)	(1,910)
Basic earnings (loss) per share:			
Continuing operations	\$ 0.04	\$ (0.01)	\$ 0.03
Discontinued operations	\$ (0.15)	\$	\$ (0.15)
Total	\$ (0.11)	\$ (0.01)	\$ (0.13)
Diluted earnings (loss) per share:			
Continuing operations	\$ 0.04	\$ (0.01)	\$ 0.03
Discontinued operations	\$ (0.15)	\$	\$ (0.15)
Total	\$ (0.11)	\$ (0.01)	\$ (0.12)
Shares used in the computation of earnings (loss) per share:			
Basic	14,970,502	14,970,502	14,970,502
Diluted	15,373,969	15,373,969	15,373,969

	One Month Ended April 30, 2006		
	Inventory		
	As Reported	Adjustments	As Restated
Consolidated Statement of Operations Data:			
Revenue	\$ 75,477	\$	\$ 75,477
Cost of services	63,774	31	63,805
Gross profit	11,703	(31)	11,672
Selling, general and administrative expenses	10,050	(3)	10,047
Income (loss) from operations	1,653	(28)	1,625
Reorganization items	(39,591)	(183)	(39,774)
Interest and other expense, net	519		519
Income from continuing operations before income taxes	40,725	155	40,880

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Benefit for income taxes	(4,918)		(4,918)
Net income (loss) from continuing operations	45,643	155	45,798
Income (loss) from discontinued operations	(2,123)		(2,123)
Provision (benefit) for income taxes	4,966		4,966
Net loss from discontinued operations	(7,089)		(7,089)
Net income	\$ 38,554	\$ 155	\$ 38,709
Basic earnings (loss) per share:			
Continuing operations	\$ 3.05	\$ 0.01	\$ 3.06
Discontinued operations	\$ (0.47)	\$	\$ (0.47)
Total	\$ 2.58	\$ 0.01	\$ 2.59
Diluted earnings (loss) per share:			
Continuing operations	\$ 2.97	\$ 0.01	\$ 2.98
Discontinued operations	\$ (0.46)	\$	\$ (0.46)
Total	\$ 2.51	\$ 0.01	\$ 2.52
Shares used in the computation of earnings (loss) per share			
Basic	14,970,502	14,970,502	14,970,502
Diluted	15,373,969	15,373,969	15,373,969

Consolidated Balance Sheet	June 30, 2006		
	As Reported	Inventory Adjustments	As Restated
Assets:			
Cash and cash equivalents	\$ 10,938	\$	\$ 10,938
Accounts receivable (net)	150,191	489	150,680
Retainage	32,359		32,359
Cost and estimated earnings in excess of billings on uncompleted contracts	19,623		19,623
Inventories	26,291	(904)	25,387
Prepaid expenses and other current assets	28,587		28,587
Assets held from discontinued operations	35,120		35,120
Current assets	303,109	(415)	302,694
Property and equipment, net	28,140		28,140

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	June 30, 2006		
	As Reported	Inventory Adjustments	As Restated
Consolidated Balance Sheet			
Goodwill, net	14,649	183	14,832
Restricted cash	20,000		20,000
Other noncurrent assets, net	12,233		12,233
 Total assets	 \$ 378,131	 \$ (232)	 \$ 377,899
Liabilities:			
Current maturities of long-term debt	\$ 24	\$	\$ 24
Accounts payable and accrued expenses	108,404	(36)	108,368
Billings in excess of cost and estimated earnings on uncompleted contracts	28,981		28,981
Liabilities held from discontinued operations	12,951		12,951
 Current liabilities	 150,360	 (36)	 150,324
Long-term debt, net of current maturities	54,034		54,034
Other noncurrent liabilities	14,588		14,588
 Total liabilities	 218,982	 (36)	 218,946
 Stockholders' equity	 159,149	 (196)	 158,953
 Total liabilities and stockholders' equity	 \$ 378,131	 \$ (232)	 \$ 377,899

3. FRESH-START REPORTING

The Company implemented fresh-start accounting and reporting in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position No. 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* (SOP 90-7) on April 30, 2006. Fresh-start accounting required the Company to re-value its assets and liabilities based upon their estimated fair values. Adopting fresh-start accounting has resulted in material adjustments to the carrying amount of its assets and liabilities. The Company engaged an independent expert to assist the Company in computing the fair market value of its assets and liabilities. The fair values of the assets as determined for fresh-start reporting were based on estimates of anticipated future cash flows as generated from each market and applying business valuation techniques. Liabilities existing on April 30, 2006 are stated at the present values of amounts to be paid discounted at appropriate rates. The determination of fair values of assets and liabilities is subject to significant estimation and assumptions. As a result of implementing fresh-start accounting, the consolidated financial statements for the Successor are not comparable to its consolidated financial statements for the Predecessor.

As confirmed by the Bankruptcy Court, the estimated reorganization value of the Company was determined to be approximately \$213.5 million. As outlined in the table below, this reorganization value was allocated to IES' assets and liabilities. The Company's assets and liabilities were stated at fair value, and the excess of the reorganization value over the fair value of the assets was recorded as goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS 141). In addition, IES' accumulated deficit was eliminated, and new debt and equity were recorded in accordance with distributions pursuant to the Plan of Reorganization (see Note 1). The restructuring of the Company's capital structure and resulting discharge of the senior subordinated notes and related accrued interest resulted in a gain of \$46.1 million. The loss for the revaluation of the

assets and liabilities and the gain on the discharge of pre-petition debt are recorded in Reorganization Items (see Note 4) in the unaudited consolidated statement of operations.

The allocation of the reorganization value to individual assets and liabilities may change based upon completion of the valuation process and as additional information becomes available, which may result in differences to the fresh-start adjustments presented in these financial statements.

The following unaudited fresh-start balance sheet illustrates the financial effects as of April 30, 2006, the date of 1) the implementation of the Plan and 2) the adoption of fresh-start reporting. The fresh-start balance sheet reflects the effects of the consummation of the transactions contemplated in the Plan including the refinancing of the convertible notes and the exchange of the senior subordinated notes for the common stock of the Successor (see Note 1).

	Predecessor	Plan Effects	Fresh-start Adjustments (Restated)	Successor
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 16,101	872(a)	\$	\$ 16,973
Restricted cash	20,132	(20,132)(b)		
Accounts receivable:				
Trade, net of allowance of \$1,922	139,552			139,552
Retainage	32,295			32,295
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	Predecessor	Plan Effects	Fresh-start Adjustments (Restated)	Successor
Costs and estimated earnings in excess of billings on uncompleted contracts	20,300			20,300
Inventories	23,464			23,464
Prepaid expenses and other current assets	29,382		(1,648)(l)	27,734
Assets held for sale associated with discontinued operations	42,151		337(l)	42,488
Total current assets	323,377	(19,260)	(1,311)	302,806
PROPERTY AND EQUIPMENT, net	21,181		8,193(l)	29,374
GOODWILL	24,343		(9,279)(n)	15,064
OTHER NON-CURRENT ASSETS	7,220	21,503(b)(c)	3,355(l)	32,078
Total assets	\$ 376,121	\$ 2,243	\$ 958	\$ 379,322
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) CURRENT LIABILITIES:				
Current maturities of long-term debt	\$ 25		\$	\$ 25
Accounts payable and accrued expenses (including \$10,639 in accrued interest subject to compromise)	112,545	(7,259)(d)	1,120(l)	106,406
Billings in excess of costs and estimated earnings on uncompleted contracts	26,903			26,903
Liabilities related to assets held for sale associated with discontinued operations	16,953		1,038(l)	17,991
Senior convertible notes, net (subject to compromise)	50,000	(50,000)(e)		
Senior subordinated notes, net (subject to compromise)	172,885	(172,885)(f)		
Total current liabilities	379,311	(230,144)	2,158	151,325
LONG-TERM DEBT, net of current maturities	133			133
TERM LOAN		53,000(g)		53,000
OTHER NON-CURRENT LIABILITIES	15,771		(1,249)	14,522
Total liabilities	395,215	(177,144)	909	218,980
COMMITMENTS AND CONTINGENCIES STOCKHOLDERS EQUITY (DEFICIT):				
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued and outstanding				

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Predecessor common stock, \$.01 par value, 100,000,000 shares authorized, 39,024,209 shares issued	390	(390)(h)		
Predecessor restricted voting common stock, \$.01 par value, 2,605,709 shares issued, authorized and outstanding	26	(26)(h)		
Successor common stock, \$.01 par value 100,000,000 shares authorized and 15,326,885 shares issued and outstanding		153(f)(h)		153
Treasury stock, at cost, 2,416,377 shares	(10,930)	10,930(i)		
Additional paid-in capital	428,869	124,880(j)	(393,560)(m)	160,189
Retained deficit	(437,449)	43,840(k)	393,609(m)	
Total stockholders equity (deficit)	(19,094)	179,387	49	160,342
Total liabilities and stockholders equity (deficit)	\$ 376,121	\$ 2,243	\$ 958	\$ 379,322

(a) Reflects the net remaining proceeds from the Term Loan borrowings, less financing costs and the repayment of principal and accrued interest on the senior convertible notes (see Note 6).

(b) Reflects the reclass of restricted cash collateral to other non-currents assets in accordance with the provisions of the Credit Facility.

(c) Reflects the net increase in deferred financing costs related to the

Term Loan and
Credit Facility.

- (d) Reflects the payment of accrued interest on the senior convertible notes and the extinguishment of accrued interest on the senior subordinated notes, net of the accrual of success fees payable as a result of the Plan confirmation.
- (e) Reflects repayment of the senior convertible notes.

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- (f) Reflects extinguishment of the senior subordinated notes in exchange for common stock of the Successor.
- (g) Reflects advances under the Term Loan (see Note 6).
- (h) Reflects cancellation of Predecessor common stock in exchange for common stock of the Successor.
- (i) Reflects the cancellation of treasury stock.
- (j) Reflects the impact to paid in capital resulting from the issuance of new common stock to the senior subordinated noteholders and holders of Predecessor common stock, new restricted common stock issued to management, and the cancellation of Predecessor common stock

(including treasury stock).

- (k) Reflects the gain on extinguishment of debt of \$46.1 million, net of the accrual of success fees payable as a result of the Plan confirmation.
- (l) Reflects changes to carrying values of assets and liabilities to reflect estimated fair values.
- (m) Reflects the revaluation loss and the elimination of the retained deficit.
- (n) Reflects goodwill equal to the excess of reorganization equity value over the estimated fair value of identifiable net assets.

Impact of Fresh Start Accounting on Depreciation and Amortization

Upon adopting fresh-start accounting in accordance with SOP 90-7, we recorded adjustments to our balance sheet to adjust the book value of our assets and liabilities to their estimated fair value. As a result, we increased the book value of our property and equipment, including land, by \$8.5 million. We expect that this adjustment will result in an increase of our depreciation expense by \$0.7 million during the three months ended September 30, 2006, \$2.9 million during fiscal 2007, \$1.7 million during fiscal 2008, and a total of \$0.8 million thereafter.

Additionally, we established a contract loss reserve liability to record the fair value of expected losses related to existing contracts. This reserve will be amortized as income over the remaining terms of the contracts. We expect to recognize income of \$1.4 million during the three months ended September 30, 2006, and \$2.1 million during fiscal 2007 as a result.

We also identified certain intangible assets as a result of adopting fresh-start accounting (see Note 9 to the Consolidated Financial Statements). These assets will be amortized over their expected useful lives. As a result, we expect to record amortization expense of \$0.5 million during the three months ended September 30, 2006, \$1.8 million in fiscal 2007, \$1.2 million in fiscal 2008, and a total of \$2.2 million thereafter.

These estimates are preliminary and subject to change based upon completion of the fair valuation process, as additional information becomes available, and may result in changes to the future expected amortization described above.

Impact of Reorganization on Income Taxes

The restructuring of the Company's capital structure and resulting discharge of the senior subordinated notes and related accrued interest resulted in a gain of \$46.1 million. This gain will be excluded from taxable income for the tax year ended September 30, 2006 and result in a \$46.1 million reduction to our net operating losses or, upon election, to the tax basis of certain assets pursuant to Internal Revenue Code Section 108. Accordingly, we have reduced our deferred tax assets by \$16.5 million with an equal and offsetting reduction to the valuation allowance. Therefore, since the gain reduces deferred tax assets which are fully reserved by valuation allowances, there is no income tax expense related to the gain.

4. REORGANIZATION ITEMS

Reorganization items refer to revenues, expenses (including professional fees), realized gains and losses and provisions for losses that are realized or incurred as a result of the bankruptcy proceedings. The following table summarizes the components included in reorganization items on the consolidated statements of operations for the one and seven months ended April 30, 2006 (Predecessor) and two months ended June 30, 2006 (Successor) (in thousands):

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	Predecessor	Successor
	One Month Ended April 30, 2006 (Restated)	Seven Months Ended April 30, 2006 (Restated)
		Two Months Ended June 30, 2006
Gain on debt-for-equity exchange (1)	\$ (46,117)	\$ (46,117) \$
Fresh-start adjustments (2)	(49)	(49)