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

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

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended December 31, 2008

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number 1-13783
Integrated Electrical Services, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**76-0542208**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1800 West Loop South, Suite 500, Houston, Texas 77027
(Address of principal executive offices and ZIP code)
Registrant s telephone number, including area code: (713) 860-1500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o
The number of shares outstanding as of February 5, 2009 of the issuer s common stock was 14,612,239.

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Explanatory Paragraph

The purpose of this Amendment No. 1 on Form 10-Q/A to the Quarterly Report on Form 10-Q of Integrated Electrical Services, Inc. (we , us , our , or the Company) is to amend our Quarterly Report on Form 10-Q for the quarter en December 31, 2008 filed on February 9, 2009 to correct the accounting treatment previously accorded certain transactions and to restate our condensed consolidated balance sheets as of December 31, 2008 and our condensed consolidated statements of operations and cash flows for the three months ended December 31, 2008.

These corrections primarily included recording of additional charges for certain accruals, medical claims and certain other expenses, and resultant tax effects, that should have been recorded at December 31, 2008.

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

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

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

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
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DEFINITIONS

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Amendment No. 1 to our quarterly report on Form 10-Q/A includes certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, all of which are based upon various estimates and assumptions that the Company believes to be reasonable as of the date hereof. These statements involve risks and uncertainties that could cause our actual future outcomes to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

- fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;
- competition in the construction industry, both from third parties and former employees, which could result in the loss of one or more customers or lead to lower margins on new contracts;
- our ability to successfully manage construction projects;
- possibility of errors when estimating revenue and progress to date on percentage-of-completion contracts;
- inaccurate estimates used when entering into fixed-priced contracts;
- challenges integrating new types of work or new processes into our divisions;
- the cost and availability of qualified labor, especially electricians and construction supervisors;
- accidents resulting from the physical hazards associated with our work and potential for vehicle accidents;
- success in transferring, renewing and obtaining electrical and construction licenses after the recent consolidation of our divisions;
- the possibility that our restructuring program will not be successfully executed;
- our ability to pass along increases in the cost of commodities used in our business, in particular, copper, aluminum, steel, fuel and certain plastics;
- potential supply chain disruptions due to credit or liquidity problems faced by our suppliers;
- loss of key personnel and effective transition of new management;
- warranty losses or other latent defect claims in excess of our existing reserves and accruals;
- warranty losses or other unexpected liabilities stemming from former divisions which we have sold or closed;
- growth in latent defect litigation in states where we provide residential electrical work for home builders not otherwise covered by insurance;
- limitations on the availability of sufficient credit or cash flow to fund our working capital needs;
- difficulty in fulfilling the covenant terms of our credit facilities;
- increased cost of surety bonds affecting margins on work and the potential for our surety providers to refuse bonding at their discretion;

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

You should understand that the foregoing, as well as other risk factors discussed in Amendment No. 1 to our annual report on Form 10-K/A for the year ended September 30, 2008, could cause future outcomes to differ materially from those experienced previously or from those expressed in this quarterly report and our aforementioned annual report on Form 10-K/A. We undertake no obligation to publicly update or revise information concerning our restructuring efforts, borrowing availability, cash position or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this Amendment No. 1 to our quarterly report on Form 10-Q/A pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties, and risks described herein.

General information about us can be found at www.ies-co.com under Investor Relations. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments to those reports, are available free of charge through our website as soon as reasonably practicable after we file them with, or furnish them to, the Securities and Exchange Commission. You may also contact our Investor Relations department at 713-860-1500, and they will provide you with copies of our public reports.

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

	December 31, 2008 (Unaudited) (Restated)	September 30, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 49,294	$ 64,709
Accounts receivable:		
Trade, net of allowance of $3,134 and $3,556 respectively	122,678	132,273
Retainage	31,244	30,833
Inventories	12,316	12,856
Costs and estimated earnings in excess of billings on uncompleted contracts	12,589	14,743
Prepaid expenses and other current assets	6,547	6,728
Assets from discontinued operations	1,793	1,967
Total current assets	236,461	264,109
PROPERTY AND EQUIPMENT, net	25,288	26,123
GOODWILL	4,880	4,892
OTHER NON-CURRENT ASSETS, net	20,984	25,414
Total assets	$ 287,613	$ 320,538
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 2,717	$ 2,905
Accounts payable and accrued expenses	67,672	99,860
Billings in excess of costs and estimated earnings on uncompleted contracts	37,483	33,711
Liabilities from discontinued operations	372	504
Total current liabilities	108,244	136,980
LONG-TERM DEBT, net of current maturities	26,215	26,739
OTHER NON-CURRENT LIABILITIES	11,509	10,584
Total liabilities	145,968	174,303
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued and outstanding		

Common stock, $0.01 par value, 100,000,000 shares authorized; 15,407,802 and 15,407,802 shares issued and 14,634,180 and 14,753,779 outstanding, respectively		154		154
Treasury stock, at cost, 773,622 and 654,023 shares, respectively		(14,035)		(11,591)
Additional paid-in capital		169,043		170,023
Retained deficit		(13,517)		(12,351)
Total stockholders equity		141,645		146,235
Total liabilities and stockholders equity	$	287,613	$	320,538

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

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

	Three Months Ended December 31, 2008 (Unaudited) (Restated)	Three Months Ended December 31, 2007 (Unaudited)
Revenues	$ 173,107	$ 197,120
Cost of services	145,130	164,085
Gross profit	27,977	33,035
Selling, general and administrative expenses	28,869	30,404
Gain on sale of assets	(103)	(17)
Restructuring charges	483	1,294
Income (loss) from operations	(1,272)	1,354
Interest and other (income) expense:		
Interest expense	985	4,249
Interest income	(160)	(1,120)
Other (income) expense, net	(61)	(426)
Interest and other expense, net	764	2,703
Loss from continuing operations before income taxes	(2,036)	(1,349)
Benefit for income taxes	(885)	(429)
Net loss from continuing operations	(1,151)	(920)
Discontinued operations (Note 2)		
Income (loss) from discontinued operations	(29)	252
Provision (benefit) for income taxes	(14)	129
Net income (loss) from discontinued operations	(15)	123
Net loss	$ (1,166)	$ (797)
Basic earnings (loss) per share:		
Continuing operations	$ (0.08)	$ (0.06)
Discontinued operations	$ (0.00)	$ 0.01
Total	$ (0.08)	$ (0.05)
Diluted earnings (loss) per share:		
Continuing operations	$ (0.08)	$ (0.06)

Discontinued operations	$	(0.00)	$	0.01
Total	$	(0.08)	$	(0.05)
Shares used in the computation of earnings (loss) per share (Note 4):				
Basic		14,318,776		15,092,303
Diluted		14,318,776		15,092,303

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

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

	Three Months Ended December 31, 2008 (Unaudited) (Restated)	Three Months Ended December 31, 2007 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,166)	$ (797)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net (income) loss from discontinued operations	15	(123)
Bad debt expense	291	347
Deferred financing cost amortization	65	738
Depreciation and amortization	1,992	2,209
Gain on sale of assets	(103)	(17)
Non-cash compensation expense	608	883
Equity in (gains) losses of investment	41	(416)
Goodwill adjustment under SOP 90-1	12	
Changes in operating assets and liabilities, net of effect of discontinued operations:		
Accounts receivable	9,045	2,516
Inventories	540	293
Costs and estimated earnings in excess of billings on uncompleted contracts	2,154	1,095
Prepaid expenses and other current assets	667	1,299
Other non-current assets	5,065	(210)
Accounts payable and accrued expenses	(32,192)	(17,880)
Billings in excess of costs and estimated earnings on uncompleted contracts	3,772	(1,110)
Other non-current liabilities	925	210
Net cash used in continuing operations	(8,269)	(10,963)
Net cash provided by discontinued operations	32	2,124
Net cash used in operating activities	(8,237)	(8,839)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(565)	(3,065)
Proceeds from sales of property and equipment	131	7
Investment in unconsolidated affiliate	(2,000)	
Distribution from unconsolidated affiliate		488
Net cash used in investing activities of continuing operations	(2,434)	(2,570)

Net cash provided by investing activities of discontinued operations				10
Net cash used in investing activities		(2,434)		(2,560)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Borrowings of debt				25,000
Repayments of debt		(712)		(45,615)
Payments for debt issuance costs				(500)
Acquisition of treasury stock		(4,032)		(1,525)
Net cash used in financing activities		(4,744)		(22,640)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(15,415)		(34,039)
CASH AND CASH EQUIVALENTS, beginning of period		64,709		69,676
CASH AND CASH EQUIVALENTS, end of period	$	49,294	$	35,637
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	902	$	1,456
Cash paid for income taxes	$	164	$	105

The accompanying notes to condensed consolidated finance 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
DECEMBER 31, 2008
(UNAUDITED)

1. BUSINESS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the financial position as of, and the results of operations for, the periods presented. All adjustments are considered to be normal and recurring. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. During interim periods, we follow the same accounting policies disclosed in Amendment No. 1 to our annual report on Form 10-K/A for the year ended September 30, 2008, with the exception of the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* as described in the paragraphs that follow. Please refer to the Notes to Amendment No. 1 to our annual report on Form 10-K/A for the year ended September 30, 2008 when reviewing our interim financial results set forth herein.

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

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

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

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

As the result of the adoption of FIN 48 and recognition of the cumulative effect of the adoption of the new accounting principal, we recorded an $8.2 million decrease in contingent tax liabilities. The reduction of the contingent tax liabilities resulted in a $7.8 million decrease in goodwill as prescribed by Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7) and a $0.4 million decrease in retained deficit. Upon the adoption of FIN 48, the total liability for unrecognized tax benefits was $6.2 million, excluding accrued interest and penalties, which are discussed below. The liabilities for unrecognized tax benefits are a component of Other non-current liabilities in our consolidated balance sheet. The reversal of the liabilities for

unrecognized tax benefits would result in a $6.1 million adjustment that would first go to reduce goodwill, then intangible assets and then additional paid-in capital as prescribed by SOP 90-7, as these represent amounts accrued prior to our emergence from bankruptcy. The remaining $0.1 million would result in a decrease in the provision for income tax expense.

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We recognize interest and penalties related to unrecognized tax benefits as part of the provision for income taxes. Upon the adoption of FIN 48, we had approximately $0.4 million in accrued interest and penalties included in liabilities for unrecognized tax benefits. The accrued interest and penalties are a component of Other non-current liabilities in our consolidated balance sheet. The reversal of the accrued interest and penalties would result in a $0.2 million adjustment that would first go to reduce goodwill, then intangible assets and then additional paid-in capital as prescribed by SOP 90-7, as these represent amounts accrued prior to our emergence from bankruptcy. The remaining $0.2 million would result in a decrease in the provision for income tax expense.

As of December 31, 2008 we have $6.5 million of unrecognized tax benefit of which $6.1 million would first go to reduce goodwill, then intangible assets and then additional paid-in capital as prescribed by SOP 90-7, as these represent amounts accrued prior to our emergence from bankruptcy. The remaining $0.4 million would result in a decrease in the provision for income tax expense. We anticipate that approximately $0.1 million of unrecognized tax benefits, including accrued interest, may reverse in the next twelve months. The reversal is predominately due to the expiration of the statutes of limitation for unrecognized tax benefits and the settlement of a state audit.

We had approximately $0.5 million and $0.4 million accrued for the payment of interest and penalties at December 31, 2008 and 2007, respectively. We recognize interest and penalties related to unrecognized tax benefits as part of the provision for income taxes.

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

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with United States generally accepted accounting principles (GAAP) requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are primarily used in our revenue recognition for construction in progress. Other estimates consist of allowances for doubtful accounts receivable, inventory obsolescence reserves, fair value assumptions in analyzing goodwill and long-lived asset impairments and adjustments from fresh-start accounting, realizability of deferred tax assets, self-insured claims liabilities, and estimated forfeiture rates and projected earnings used to measure stock-based compensation awards.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Our results of operations are seasonal, depending on weather trends, with higher revenues typically generated during spring and summer months which coincides with our third and fourth fiscal quarters, and lower revenues typically generated during fall and winter months, which coincides with our first and second fiscal quarters. In addition, the construction industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in construction projects resulting from adverse regional or national economic conditions. Quarterly results may also be materially affected by the timing of new construction projects. Accordingly, operating results for any fiscal period are not necessarily indicative of results that may be achieved for any subsequent fiscal period.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

adjustment to our income tax expense. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008.

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STOCK-BASED COMPENSATION

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

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

The assumptions used in the binomial pricing model calculation for the three months ended December 31, 2008 and 2007 are as follows:

	Three Months Ended December 31,	
	2008	**2007**
Weighted average value per option granted during the period (1)	$ 8.56	$ 9.84
Assumptions:		
Stock price volatility	86.4%	51.0%
Risk free rate of return	1.3%	3.6%
Future forfeiture rate (2)	0.0%	0.0%
Expected term	6.0 years	6.0 years

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

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

2. STRATEGIC ACTIONS

The 2007 Restructuring Plan

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

a total of $5.6 million of restructuring charges.

The first component of the 2007 Restructuring Plan was initiated in our Industrial segment in June 2007. Under this portion of the restructuring, 5 of our divisions were integrated under the IES Industrial segment, and the support and administrative functions of those businesses were combined at an operating location in Houston, Texas. The second component of the 2007 Restructuring Plan was initiated in our Commercial segment in September 2007. Under this portion of the restructuring, 17 of our divisions were integrated under the IES Commercial segment, and the support and administrative functions of those businesses were combined at an operating location in Tempe, Arizona. The third component of the 2007 Restructuring Plan was initiated in our Residential segment in September 2007. Under this portion of the restructuring, 5 of our divisions were integrated under the IES Residential segment during our 2008 fiscal year, and the support and administrative functions of those businesses were combined at an operating location near Houston, Texas. Since the inception of the 2007 Restructuring Plan, we recognized $0.5 million, $2.2 million and $0.2 million in severance liabilities for our Industrial, Commercial and Residential segments, respectively. In addition to the severance costs described above, we incurred other charges of approximately $2.6 million predominately for consulting services associated with the 2007 Restructuring Plan. We also wrote off $0.1 million of leasehold improvements at an operating location that we closed. These charges have been identified within the Restructuring Charges caption in the consolidated statement of operations.

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The 2009 Restructuring Plan

As described above, during our 2008 fiscal year, we completed a previously announced operational restructuring from our previous geographic structure into three major lines of business: Commercial, Industrial and Residential. In the first quarter of our 2009 fiscal year, we began a new restructuring program (the 2009 Restructuring Plan) that is designed to consolidate operations within our three segments, and is the next level of our business optimization strategy. Our plan is to streamline our local project and support operations, which will be managed through regional operating centers, and to capitalize on the investments we made over the past year to further leverage our resources. Under the 2009 Restructuring Plan, we expect to incur pre-tax restructuring charges, including severance benefits and facility consolidations and closings, of approximately $2.0 million to $3.0 million, which will be implemented over approximately 12 months. During the three months ended December 31, 2008, we incurred $0.5 million associated with the 2009 Restructuring Plan, of which $0.3 million, $0.1 million and $0.1 million was charged to our Commercial, Industrial and Residential segments, respectively.

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

	Severance Charges	Consulting / Other Charges	Total