

MERIDIAN BIOSCIENCE INC
Form SC 13G/A
February 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No. 3)*

Meridian Bioscience Inc.

(Name of Issuer)

Common

(Title of Class of Securities)

589584101

(CUSIP Number)

December 31, 2012

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

- Rule 13d-1(b)
- Rule 13d-1(c)
- Rule 13d-1(d)

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 589584101

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)
Neuberger Berman Group LLC

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

2
(a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

5 SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY **6**
OWNED BY
EACH
REPORTING
PERSON WITH:

SHARED VOTING POWER

4107323

7 SOLE DISPOSITIVE POWER

0

8 SHARED DISPOSITIVE POWER

4204423

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
4204423

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

x

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

10.1775%

12 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

HC

FOOTNOTES

CUSIP No. 589584101

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)
Neuberger Berman LLC

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

2
(a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

5 SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY **6**
OWNED BY
EACH
REPORTING
PERSON WITH:

SHARED VOTING POWER

4107323

7 SOLE DISPOSITIVE POWER

0

8 SHARED DISPOSITIVE POWER

4204423

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
4204423

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

x

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

10.1775%

12 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IA , BD

FOOTNOTES

CUSIP No. 589584101

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)
Neuberger Berman Management LLC

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

2
(a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

5 SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY **6**
OWNED BY
EACH
REPORTING
PERSON WITH:

SHARED VOTING POWER

3713597

7 SOLE DISPOSITIVE POWER

0

8 SHARED DISPOSITIVE POWER

3713597

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
3713597

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

8.989%

12 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

BD

FOOTNOTES

CUSIP No. 589584101

1 NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)
Neuberger Berman Equity Funds

CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)

2
(a)
(b)

3 SEC USE ONLY

4 CITIZENSHIP OR PLACE OF ORGANIZATION
Delaware

5 SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY **6**
OWNED BY
EACH
REPORTING
PERSON WITH:

SHARED VOTING POWER

3226097

7 SOLE DISPOSITIVE POWER

0

8 SHARED DISPOSITIVE POWER

3226097

9 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
3226097

10 CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

o

11 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.8093%

12 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

IV

FOOTNOTES

Item 1.

- (a) Name of Issuer
Meridian Bioscience Inc.
- (b) Address of Issuer's Principal Executive Offices
3471 River Hills Dr
Cincinnati, OH 45244

Item 2.

- (a) Name of Person Filing
Neuberger Berman Group LLC
Neuberger Berman LLC
Neuberger Berman Management LLC
Neuberger Berman Equity Funds
- (b) Address of Principal Business Office or, if none, Residence
605 Third Avenue New York, NY 10158
- (c) Citizenship
Delaware
- (d) Title of Class of Securities
Common
- (e) CUSIP Number
589584101

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

- (a) Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).
- (b) Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).
- (c) Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).
- (d) Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).
- (e) An investment adviser in accordance with §240.13d-1(b)(1)(ii)(E);
- (f) An employee benefit plan or endowment fund in accordance with §240.13d-1(b)(1)(ii)(F);
- (g) A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
- (h) A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J).

(k) A group, in accordance with § 240.13d-1(b)(1)(ii)(K). If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution:

Item 4. Ownership.

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

- (a) Amount beneficially owned: 4,204,423
- (b) Percent of class: 10.1775
- (c) Number of shares as to which the person has:
 - (i) Sole power to vote or to direct the vote: 0
 - (ii) Shared power to vote or to direct the vote: 4,107,323
 - (iii) Sole power to dispose or to direct the disposition of: 0
 - (iv) Shared power to dispose or to direct the disposition of: 4,204,423

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following o .

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Neuberger Berman Group LLC may be deemed to be a beneficial owner of securities for purposes of Rule 13d-3 because certain affiliated persons have shared power to retain or dispose of the securities of many unrelated clients. Neuberger Berman Group LLC or its affiliated persons do not, however, have any economic interest in the securities of those clients. The clients are the actual owners of the securities and have the sole right to receive and the power to direct the receipt of dividends from or proceeds from the sale of such securities. No one client has an interest of more than 5% of the issuer.

With regard to the shares set forth under item 4(c)(ii), Neuberger Berman Group LLC may be deemed to be the beneficial owner for purposes of Rule 13d-3 because certain affiliated persons have shared power to retain, dispose of and vote the securities. Each of Neuberger Berman LLC and Neuberger Berman Management LLC serve as a sub-adviser and investment manager, respectively, of Neuberger Berman Group LLC's various registered mutual funds which hold such shares in the ordinary course of their business and not with the purpose nor with the effect of changing or influencing the control of the issuer. The holdings of Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternative Fund Management LLC, NB Alternatives Advisers LLC and Neuberger Berman Fixed Income LLC, affiliates of Neuberger Berman LLC, are also aggregated to comprise the holdings referenced herein.

It should be further noted the share calculation under item 4(c)(iv) is derived from a total combination of the shares set forth under Item 4(c)(ii) plus any remaining balance of shares from individual client accounts over which Neuberger Berman LLC has shared power to dispose but does not have voting power over these shares. The holdings of Neuberger Berman Trust Co N.A., Neuberger Berman Trust Co of Delaware N.A., NB Alternative Fund Management

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LLC, NB Alternatives Advisers LLC and Neuberger Berman Fixed Income LLC, affiliates of Neuberger Berman LLC, are also aggregated to comprise the holdings referenced herein.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company

Item 8. Identification and Classification of Members of the Group

Item 9. Notice of Dissolution of Group

Item Certification
10.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Neuberger Berman Group LLC

Date: February 14, 2013

By: /s/ Brad Cetron
Name: Brad Cetron
Title: Deputy General Counsel

Neuberger Berman LLC

Date: February 14, 2013

By: /s/ Brad Cetron
Name: Brad Cetron
Title: Deputy General Counsel

Neuberger Berman Management LLC

Date: February 14, 2013

By: /s/ Robert Conti
Name: Robert Conti
Title: President

Neuberger Berman Equity Funds

Date: February 14, 2013

By: /s/ Robert Conti
Name: Robert Conti

Title: President and Chief
Executive Officer

Footnotes: Item 4(a):

Neuberger Berman Group LLC, Neuberger Berman LLC, Neuberger Berman Management LLC and certain affiliated persons own directly no shares. As investment advisers, certain affiliated persons that are controlled by Neuberger Berman Group LLC have investment and voting powers with respect to the shares held.

Neuberger Berman Group LLC, through its direct and indirect subsidiary Neuberger Berman Holdings LLC, controls Neuberger Berman LLC and certain affiliated persons. By reason of the provisions of Rule 13d-3 of the Securities Exchange Act of 1934, as amended, each of Neuberger Berman Group LLC, Neuberger Berman LLC and Neuberger Berman Management LLC may be deemed to beneficially own the number of shares indicated above. Each of Neuberger Berman Group LLC, Neuberger Berman LLC, Neuberger Berman Management LLC and certain affiliated persons disclaim beneficial ownership of any of the securities covered by this statement.

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001)

IGN="bottom"> 17 58

Issuance of restricted stock (unaudited)

(1,992) 1,992

Purchase of treasury stock (unaudited)

(549,200) (4,340) (4,340)

Issuance of stock under employee stock purchase plan (unaudited)

199,438 1,290 (638) 652

Exercise of stock options (unaudited)

811,887 5,079 255 5,334

Non-cash compensation (unaudited)

612 (44) 568

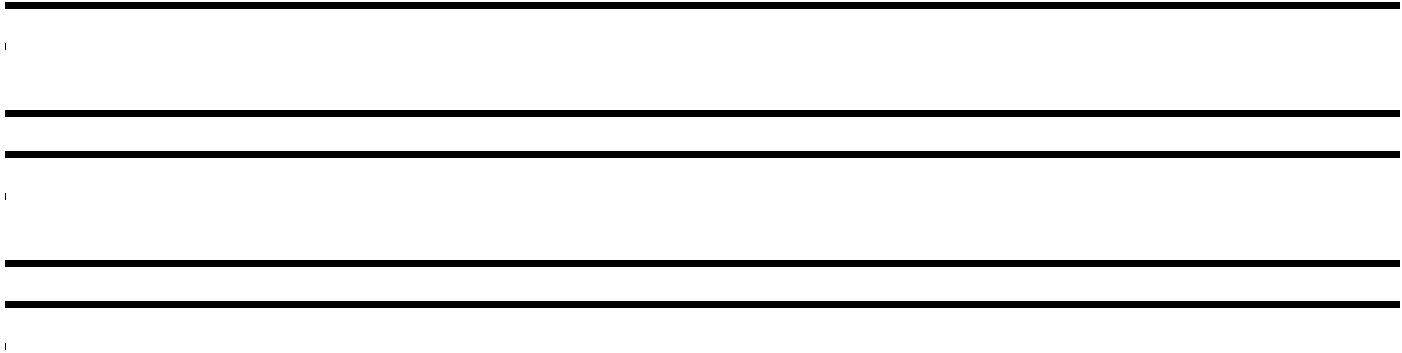
Net income (unaudited)

9,502 9,502

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BALANCE, June 30, 2004 (unaudited)

38,439,984 \$385 2,605,709 \$26 (2,255,570) \$(14,291) \$(1,380) \$429,291 \$(137,350) \$276,681



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

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

	Nine Months Ended June 30,	
	2003	2004
	(restated)	
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,101	9,502
Adjustments to reconcile net income to net cash provided by operating activities		
Bad debt expense	1,046	2,152
Deferred income taxes	(281)	(6,490)
Depreciation and amortization	10,931	10,026
Loss (gain) on sale of property and equipment	204	(3)
Non-cash compensation expense		568
Gain on divestiture	(26)	
Changes in operating assets and liabilities, net of acquisitions and dispositions of businesses		
Accounts receivable	156	(1,560)
Inventories	3,216	(5,858)
Costs and estimated earnings in excess of billings on uncompleted contracts	4,103	(3,947)
Prepaid expenses and other current assets	12,267	(2,937)
Other noncurrent assets	2,255	1,274
Accounts payable and accrued expenses	4,688	4,528
Billings in excess of costs and estimated earnings on uncompleted contracts	(10,240)	(296)
Other current liabilities	185	
Other noncurrent liabilities	(4,706)	2,461
Net cash provided by operating activities	35,899	9,420
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	1,787	684
Purchases of property and equipment	(7,304)	(4,729)
Purchases of business, net of cash acquired	(2,723)	
Sale of business	1,084	
Investments in securities	(500)	(400)
Net cash used in investing activities	(7,656)	(4,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	37	50,040
Repayments of debt	(16,176)	(82,386)
Purchase of treasury stock	(6,795)	(4,340)
Proceeds from exercise of stock options	2,112	5,354
Proceeds from issuance of stock		39
Proceeds from issuance of stock under employee stock purchase plan	821	652
Payments for debt issuance costs	(679)	(1,245)
Net cash used in financing activities	(20,680)	(31,886)

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NET INCREASE IN CASH AND CASH EQUIVALENTS	7,563	(26,911)
CASH AND CASH EQUIVALENTS, beginning of period	32,779	40,201
CASH AND CASH EQUIVALENTS, end of period	\$ 40,342	13,290
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for		
Interest	\$ 12,321	14,207
Income taxes	\$ 599	666

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

	Three Months Ended June 30,	
	2003	2004
	(restated) (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,260	740
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for allowance for doubtful accounts	385	865
Depreciation and amortization	3,590	3,294
Loss (gain) on sale of property and equipment	234	(150)
Non-cash compensation expense		237
Deferred income tax benefit	(86)	1,738
Changes in operating assets and liabilities, net of acquisitions and dispositions of businesses		
Accounts receivable	(9,945)	(18,220)
Inventories	1,141	(2,514)
Costs and estimated earnings in excess of billings on uncompleted contracts	2,879	(1,724)
Prepaid expenses and other current assets	2,703	(1,262)
Other noncurrent assets	1,229	(1,749)
Accounts payable and accrued expenses	13,786	17,010
Billings in excess of costs and estimated earnings on uncompleted contracts	(4,258)	3,153
Other current liabilities	(177)	(50)
Other noncurrent liabilities	1,188	1,028
	<u>17,929</u>	<u>2,396</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property and equipment	247	286
Purchases of property and equipment	(1,842)	(1,590)
	<u>(1,595)</u>	<u>(1,304)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	10	
Repayments of debt	(146)	(7,145)
Purchase of treasury stock	(3,419)	
Proceeds from exercise of stock options	2,112	300
Payments for debt issuance costs	(679)	
	<u>(2,122)</u>	<u>(6,845)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,212	(5,753)
CASH AND CASH EQUIVALENTS, beginning of period	26,130	19,043
	<u>\$ 40,342</u>	<u>13,290</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for		
Interest	\$ 261	727
Income taxes	\$ 599	340

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, 2004

(UNAUDITED)

1. OVERVIEW

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

The accompanying unaudited Condensed Consolidated Financial Statements (the Financial Statements) of the Company have been prepared in accordance with accounting principles generally accepted in the United States and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required for complete financial statements, and therefore should be reviewed in conjunction with the financial statements and related notes thereto contained in the Company's annual report for the year ended September 30, 2003, filed on Form 10-K with the Securities and Exchange Commission. In the opinion of management, all adjustments (primarily consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Actual operating results for the nine months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2004.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a description of these policies, refer to Note 2 of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2003.

SUBSIDIARY GUARANTIES

All of the Company's operating income and cash flows are generated by its 100% owned subsidiaries, which are the subsidiary guarantors of the Company's outstanding 98% senior subordinated notes due 2009 (the Senior Subordinated Notes). The Company is structured as a holding company and substantially all of its assets and operations are held by its subsidiaries. There are currently no significant restrictions on the Company's ability to obtain funds from its subsidiaries by dividend or loan. The parent holding company's independent assets, revenues, income before taxes and operating cash flows are less than 3% of the consolidated total. The separate financial statements of the subsidiary guarantors are not included herein because (i) the subsidiary guarantors are all of the direct and indirect subsidiaries of the Company; (ii) the subsidiary guarantors have fully and unconditionally, jointly and severally guaranteed the Senior Subordinated Notes; and (iii) the aggregate assets, liabilities, earnings and equity of the subsidiary guarantors is substantially equivalent to the assets, liabilities, earnings and equity of the Company on a consolidated basis. As a result, the presentation of separate financial statements and other disclosures concerning the subsidiary guarantors is not deemed material.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are primarily used in the Company's revenue recognition of construction in progress, fair value assumptions in analyzing goodwill impairment, allowance for doubtful accounts receivable, realizability of deferred tax assets and self-insured claims liabilities.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2004

(UNAUDITED)

SEASONALITY AND QUARTERLY FLUCTUATIONS

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

NEW ACCOUNTING PRONOUNCEMENT

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, Consolidation of Variable Interest Entities, (Interpretation 46). The objective of Interpretation 46 is to improve the financial reporting by companies involved with variable interest entities. Until Interpretation 46, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interest. Interpretation 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period ending after March 15, 2004. Certain disclosure requirements applied to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has investments in two firms, EnerTech Capital Partners II, L.P. (EnerTech) and Energy Photovoltaics, Inc. (EPV) that were considered in light of this interpretation. The Company determined that EPV was an exception to the provisions of Interpretation 46, and that the Company is not the primary beneficiary of EnerTech and as such, the adoption of Interpretation 46 did not have an impact on the Company's results of operations or its financial position.

STOCK-BASED COMPENSATION

The Company accounts for its stock-based compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations. Under APB 25, if the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company's stock options have all been granted with exercise prices at fair value, therefore no compensation expense has been recognized under APB 25 (See Note 7) During the nine months ended June 30, 2004, the Company recorded compensation expense of \$0.6 million in connection with a restricted stock award (See note 7). Additionally, the Company recorded no compensation expense associated with

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our Employee Stock Purchase Plan which is defined as a non-compensatory plan pursuant to Financial Accounting Standards Board Interpretation No. 44 (See note 8).

Table of Contents**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2004****(UNAUDITED)**

The following table illustrates the effect on net income and earnings per share assuming the compensation costs for IES 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, 2003 and 2004 (in thousands, except for per share data):

	Three months ended June 30,		Nine months ended June 30,	
	2003	2004	2003	2004
Net income, as reported	\$ 5,260	\$ 740	\$ 12,101	\$ 9,502
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		137		329
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	421	267	1,552	809
Pro forma net income for SFAS No. 123	\$ 4,839	\$ 610	\$ 10,549	\$ 9,022
Earnings per share:				
Basic as reported	\$ 0.14	\$ 0.02	\$ 0.31	\$ 0.25
Basic pro forma for SFAS No. 123	\$ 0.12	\$ 0.02	\$ 0.27	\$ 0.23
Earnings per share:				
Diluted as reported	\$ 0.13	\$ 0.02	\$ 0.31	\$ 0.24
Diluted pro forma for SFAS No. 123	\$ 0.12	\$ 0.02	\$ 0.27	\$ 0.23

2. BUSINESS COMBINATIONS*Acquisition*

On February 27, 2003, the Company purchased the assets of Riviera Electric LLC, an electrical contractor located in the state of Colorado, out of a bankruptcy auction of a prior competitor. The total consideration paid in this transaction was approximately \$2.7 million, comprised entirely of cash, net of cash acquired. The fair value of the tangible net assets acquired exceeded the total consideration paid. As a result, the long-term fixed assets of the acquisition were reduced to zero. The purchase price was allocated as follows (in thousands):

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Accounts receivable, net	\$ 11,643
Retention	3,884
Costs and estimated earnings in excess of billings on uncompleted projects and other	922
Less: Accounts payable and accrued expenses	(10,214)
Less: Billings in excess of costs and estimated earnings on uncompleted projects and other	\$ (3,512)
	<hr/>
Cash paid, net of cash acquired	\$ 2,723
	<hr/>

Table of Contents**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2004****(UNAUDITED)**

The unaudited pro forma data presented below reflect the results of operations of IES and the acquisition of Riviera Electric LLC assuming the transaction was completed on October 1, 2002 (in thousands):

	Nine Months Ended
	June 30, 2003
Revenues	\$ 1,101,552
Net income	\$ 12,985
Basic earnings per share	\$ 0.33
Diluted earnings per share	\$ 0.33

The unaudited pro forma data summarized above also reflects pro forma adjustments primarily related to reductions in general and administrative expenses for contractually agreed reductions in compensation programs and additional income tax expense based on the Company's effective income tax rate. The unaudited pro forma financial data does not purport to represent what the Company's combined results of operations would actually have been if such transactions had in fact occurred on October 1, 2002, and are not necessarily representative of the Company's results of operations for any future period.

Divestiture

On October 8, 2002, the Company sold all of the stock of one of its operating companies. The proceeds from the sale were \$1.1 million in cash and 70,330 shares of the Company's common stock. The Company recorded a pre-tax gain of less than \$0.1 million associated with this sale that is recorded in other income.

In connection with the disposition discussed above, the net pre-tax gain was determined as follows for the quarter ended December 31, 2002 (in thousands):

Book value of assets divested	\$ 1,830
Liabilities divested	(502)

Net assets divested	1,328
Cash received	1,084
Common stock received	270
Total consideration received	1,354
Pre-tax gain	\$ 26

3. RESTRUCTURING CHARGES

In October 2001, the Company began implementation of a workforce reduction program. The purpose of this program was to cut costs by reducing the number of administrative staff both in the field and at the home office. The total number of terminated employees was approximately 450. As a result of the program implementation, the Company recorded pre-tax restructuring charges of \$5.6 million associated with 45 employees during the year ended September 30, 2002 and presented these charges as a separate component of the Company's results of operations for the period then ended. The charges were based on the costs of the workforce reduction program and included severance and other special termination benefits. The Company believes the reduction of these personnel resulted in annual savings of approximately \$4.1 million in salaries and benefits.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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(UNAUDITED)

During the nine months ended June 30, 2004, the Company settled the remaining payments required under the restructuring agreements and reduced the restructuring accrual by \$0.4 million, which is included as a reduction in selling, general, and administrative expenses. As of June 30, 2004, there are no amounts accrued and unpaid as a result of the restructuring.

4. DEBT

Credit Facility

On February 27, 2004, the Company amended and restated the \$125.0 million revolving credit facility to a \$125.0 million revolving credit facility and a \$50.0 million term loan led by Bank One, NA (the "Credit Facility"). The Company used the proceeds from the term loan and available cash to redeem \$75.0 million principal amount of the Company's long term bonds. Since February 27, 2004, and through December 10, 2004, the Company amended the Credit Facility four times. The amendments reduced the Credit Facility commitment, provided for covenants or waivers that permit the Company to file the Form 10-Q for the quarter ended June 30, 2004 on or before December 15, 2004, permitted the Company to issue senior convertible notes, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis beginning December 31, 2004, increased pricing, established the borrowing base at 70 percent of qualifying receivables and permit the Company to release certain collateral related to bonded jobs to companies providing surety bonding. These amendments required the payments of fees upon their execution. These fees are capitalized as deferred financing costs and amortized over the life of the facility. The Credit Facility, as amended, matures on January 13, 2006. The Company has the ability to extend the facility until January 12, 2007 upon the payment of a fee if certain financial conditions are met. The term loan of the credit facility is due by September 30, 2005. At June 30, 2004, the term loan had outstanding borrowings of \$42.9 million. Amounts borrowed under the Credit Facility, as amended, bear interest at an annual rate of the bank's prime rate plus two percent. Fees of one percent per annum are assessed on the outstanding borrowings as of the beginning of each quarter beginning January 1, 2005. The Company's direct and indirect subsidiaries guarantee the repayment of all amounts due under the facility and the facility is secured by a first perfected security interest in all the assets of the Company and those subsidiaries, including all of the outstanding capital shares of the capital stock of those subsidiaries. Among other restrictions, the financial covenants include minimum EBITDA requirements for core and all operations, a maximum senior secured debt to EBITDA ratio and a minimum interest coverage ratio.

As of June 30, 2004, the Company was in compliance with all financial covenants as they pertain to the Credit Facility, as amended.

As of June 30, 2004, the Company had \$42.9 million outstanding under the term loan portion of its Credit Facility, no amounts outstanding under the revolving credit line portion of its Credit Facility, letters of credit outstanding under its Credit Facility of \$25.8 million, \$0.2 million of other borrowings and available borrowing capacity under its Credit Facility of \$99.2 million.

Senior Subordinated Notes

The Company has outstanding two different issues of senior subordinated notes with similar terms. The notes bear interest at 9³/₈% and will mature on February 1, 2009. We pay interest on the notes on February 1 and August 1 of each year. The notes are unsecured senior subordinated obligations and are subordinated to all of our existing and future senior indebtedness. The notes are guaranteed on a senior subordinated basis by all of the Company's subsidiaries. Under the terms of the notes, the Company is required to comply with various affirmative and negative covenants including (1) restrictions on additional indebtedness, and (2) restrictions on

Table of Contents**INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****JUNE 30, 2004****(UNAUDITED)**

liens, guarantees and dividends. During the year ended September 30, 2002, the Company retired approximately \$27.1 million of these senior subordinated notes. In connection with these transactions, the Company recorded a gain of \$1.0 million. This gain is recorded in interest and other expense, net during the year ended September 30, 2002 in accordance with SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections, which we adopted July 1, 2002. During the nine months ended June 30, 2004, the Company redeemed \$75.0 million principal amount of the Company's senior subordinated notes, paying a call premium of 4.688%, or \$3.5 million. This premium along with a write off of previously capitalized deferred financing costs of \$1.6 million was recorded as a loss in other income and expense in accordance with SFAS No. 145. At June 30, 2004, the Company had \$172.9 million in outstanding senior subordinated notes.

Debt consists of the following (in thousands):

	September 30, 2003	June 30, 2004
	<u> </u>	<u> </u>
Secured Credit Facility and term loan with a group of lending institutions, due February 27, 2008, with a weighted average interest rate of 4.22%	\$	\$ 42,926
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 9.50%	137,885	62,885
Senior Subordinated Notes, due February 1, 2009, bearing interest at 9.375% with an effective interest rate of 10.00%	110,000	110,000
Other	451	200
	<u> </u>	<u> </u>
Total debt	248,336	216,011
Less short-term debt and current maturities of long-term debt	(256)	(35,099)
Less unamortized discount on Senior Subordinated Notes	(3,198)	(2,442)
Add fair value of terminated interest rate hedge	3,240	2,783
	<u> </u>	<u> </u>
Total long-term debt	\$ 248,122	\$ 181,253
	<u> </u>	<u> </u>

5. EARNINGS PER SHARE

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the nine months ended June 30, 2003 and 2004 (in thousands, except share data):

	Nine Months Ended June 30,	
	2003	2004
	(restated)	
Numerator:		
Net income	\$ 12,101	\$ 9,502
Denominator:		
Weighted average shares outstanding basic	39,188,518	38,529,576
Effect of dilutive stock options	108,928	642,410
Weighted average shares outstanding diluted	39,297,446	39,171,986
Earnings per share:		
Basic	\$ 0.31	\$ 0.25
Diluted	\$ 0.31	\$ 0.24

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For the nine months ended June 30, 2003 and 2004, stock options of 4.6 million and 2.2 million, respectively, were excluded from the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the Company's common stock.

The following table reconciles the numerators and denominators of the basic and diluted earnings per share for the three months ended June 30, 2003 and 2004 (in thousands, except share information):

	Three Months Ended June 30,	
	2003	2004
	(restated)	
Numerator:		
Net income	\$ 5,260	\$ 740
Denominator:		
Weighted average shares outstanding basic	38,789,237	38,769,241
Effect of dilutive stock options	372,356	663,103
Weighted average shares outstanding diluted	39,161,593	39,432,344
Earnings per share:		
Basic	\$ 0.14	\$ 0.02
Diluted	\$ 0.13	\$ 0.02

For the three months ended June 30, 2003 and 2004, stock options of 2.9 million and 2.2 million, respectively, were excluded from the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the Company's common stock.

6. OPERATING SEGMENTS

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

performance.

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

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2004

(UNAUDITED)

Segment information for the nine months ended June 30, 2003 and 2004 is as follows (in thousands):

	Nine Months Ended June 30, 2003			
	(restated)			
	Commercial/ Industrial	Residential	Other	Total
Revenues	\$ 861,864	\$ 205,023	\$	\$ 1,066,887
Cost of services	752,128	161,053		913,181
Gross profit	109,736	43,970		153,706
Selling, general and administrative	75,265	24,949	14,058	114,272
Operating income	\$ 34,471	\$ 19,021	\$ (14,058)	\$ 39,434
<i>Other data:</i>				
Depreciation expense	\$ 8,546	\$ 926	\$ 1,459	\$ 10,931
Capital expenditures	4,475	548	2,281	7,304
Total assets	507,366	107,505	109,584	724,455
	Nine Months Ended June 30, 2004			
	Commercial/ Industrial	Residential	Other	Total
Revenues	\$ 838,719	\$ 228,491	\$	\$ 1,067,210
Cost of services	746,437	184,027		930,464
Gross profit	92,282	44,464		136,746
Selling, general and administrative	67,420	25,575	16,876	109,871
Operating income	\$ 24,862	\$ 18,889	\$ (16,876)	\$ 26,875
<i>Other data:</i>				
Depreciation expense	\$ 7,429	\$ 886	\$ 1,711	\$ 10,026
Capital expenditures	2,334	903	1,492	4,729

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Total assets	512,123	107,708	89,194	709,025
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Segment information for the three months ended June 30, 2003 and 2004 is as follows (in thousands):

	Three Months Ended June 30, 2003			
	(restated)			
	Commercial/ Industrial	Residential	Other	Total
Revenues	\$ 305,613	\$ 69,690	\$	\$ 375,303
Cost of services	266,999	54,931		321,930
Gross profit	38,614	14,759		53,373
Selling, general and administrative	25,143	8,090	4,960	38,193
Operating income	\$ 13,471	\$ 6,669	\$ (4,960)	\$ 15,180
<i>Other data:</i>				
Depreciation expense	\$ 2,650	\$ 423	\$ 517	\$ 3,590
Capital expenditures	1,222	188	432	1,842
Total assets	507,366	107,505	109,584	724,455

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2004

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	Three Months Ended June 30, 2004			
	Commercial/			
	Industrial	Residential	Other	Total
Revenues	\$ 283,937	\$ 83,072	\$	\$ 367,009
Cost of services	255,677	68,536		324,213
Gross profit	28,260	14,536		42,796
Selling, general and administrative	23,330	8,757	6,425	38,512
Operating income	\$ 4,930	\$ 5,779	\$ (6,425)	\$ 4,284
<i>Other data:</i>				
Depreciation expense	\$ 2,413	\$ 281	\$ 600	\$ 3,294
Capital expenditures	943	179	468	1,590
Total assets	512,123	107,708	89,194	709,025

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

7. 1999 INCENTIVE COMPENSATION PLAN

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

In December 2003, the Company granted a restricted stock award of 242,295 shares under its 1999 Plan to certain employees. This award will vest in equal installments on December 1, 2004 and 2005, provided the recipient is still employed by the Company. The market value of the stock on the date of grant for this award was \$2.0 million, which will be recognized as compensation expense over the related two year vesting period. During the nine months ended June 30, 2004, the Company amortized \$0.6 million to expense in connection with this award.

8. EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan (the "ESPP"), which provides for the sale of common stock to participants as defined at a price equal to the lower of 85% of the Company's closing stock price at the beginning or end of the option period, as defined. The ESPP is intended to qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code of 1986, as amended. In the nine months ended June 30, 2003 and 2004, 248,982 and 199,438 shares were issued under the ESPP, respectively.

9. COMMITMENTS AND CONTINGENCIES

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2004

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

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

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

Some of the Company's customers require the Company to post letters of credit as a means of guaranteeing performance under its contracts and ensuring payment by the Company to subcontractors and vendors. If the customer has reasonable cause to effect payment under a letter of credit, the Company would be required to reimburse its creditor for the letter of credit. Depending on the circumstances surrounding a reimbursement to its creditor, the Company may have a charge to earnings in that period. To date the Company has not had a situation where a customer has had reasonable cause to effect payment under a letter of credit. At June 30, 2004, \$1.7 million of the Company's outstanding letters of credit were to collateralize its customers.

Some of the underwriters of the Company's casualty insurance program require it to post letters of credit as collateral. This is common in the insurance industry. To date the Company has not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At June 30, 2004, \$19.1 million of the Company's outstanding letters of credit were to collateralize its insurance program.

Many of the Company's customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that the Company will perform under the terms of a contract and that it will pay its subcontractors and vendors. In the event that the Company fails to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under the Company's

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bond. The Company's relationship with its sureties is such that it will indemnify the sureties for any expenses they incur in connection with any of the bonds they issues on the Company's behalf. To date, the Company has not incurred significant expenses to indemnify its sureties for expenses they incurred on the Company's behalf. As of June 30, 2004, the Company's cost to complete projects covered by surety bonds was approximately \$192.8 million and utilized a combination of cash and letters of credit totaling \$5.0 million to collateralize its bonding program.

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In April 2000, the Company committed to invest up to \$5.0 million in EnerTech Capital Partners II L.P. (EnerTech). EnerTech is a private equity firm specializing in investment opportunities emerging from the deregulation and resulting convergence of the energy, utility and telecommunications industries. Through June 30, 2004, the Company had invested \$3.1 million under the Company's commitment to EnerTech. The carrying value of this EnerTech investment at September 30, 2003 and June 30, 2004 was \$2.5 million and \$2.6 million, respectively. This investment is accounted for on the cost basis of accounting and accordingly, the Company does not record unrealized losses for the EnerTech investment that it believes are temporary in nature. As of June 30, 2004, the unrealized losses related to the Company's share of the EnerTech fund amounted to approximately \$0.9 million, which it believes are temporary in nature. If facts arise that lead the Company to determine that such unrealized losses are not temporary, the Company would write down the investment in EnerTech through a charge to other expense during the period of such determination.

10. SUBSEQUENT EVENTS*Goodwill Impairment*

On August 13, 2004, the Company announced that it would be unable to timely file results for the three months ended June 30, 2004 on Form 10-Q. There was also a possibility that factors surrounding certain material weaknesses in internal control may require a restatement of prior periods. Following this announcement, the Company's stock price declined 40 percent to \$3.93 on August 16, 2004. The Company believes that this decline in stock price plus the jury verdict and uncertainties surrounding its ability to obtain surety bonds was reflective of a change in its operations that indicated that a possible impairment of the carrying amount of goodwill existed at September 30, 2004. Therefore, the Company performed a test for impairment and consequently recorded a charge of \$99.8 million. This charge is included in arriving at income (loss) from operations for the year ended September 30, 2004. The impairment detailed by the Company's operating regions follows (amounts in millions):

Southeast	\$ 28.8
Northeast	16.3
Gulf Plains	2.1
Central	51.0
West	1.6
	—
Total	\$ 99.8

As a result of these operating uncertainties, the Company decided to begin selling or divesting operations that were underperforming, and were heavily dependant on bonding or were in markets that continue to have weak economic forecasts. These operations accounted for \$289.2 million in revenues and a loss of \$13.1 million in operating income during the year ended September 30, 2004. The identification of the subsidiaries to

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sell or close required the Company to assess if further goodwill impairment exists. The Company determined that an impairment did exist and accordingly recorded an additional \$7.3 million write off of goodwill in the first quarter of fiscal 2005. The impairment related to the Company's operating regions as follows (amounts in millions):

Northeast	\$ 1.6
Gulf Plains	0.5
Central	1.1
West	4.1
	<hr/>
Total	\$ 7.3
	<hr/>

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2004

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Discontinued Operations

Subsequent to September 30, 2004, the Company sold three operating units for total proceeds of \$11.5 million. These subsidiaries had a combined revenues of \$49.7 million, \$46.1 million and \$57.7 million and income from operations of \$4.3 million, \$3.1 million, and \$1.1 million for the years ended September 30, 2002, 2003, and 2004, respectively.

Litigation Settlement

As previously reported pursuant to the Company's Current Report on Form 8-K dated October 4, 2004, on September 30, 2004, a verdict was rendered by a jury in a case pending in the 133rd District Court of Harris County, Texas involving a dispute arising from a failed attempted sale of the assets of a wholly owned subsidiary of the Company and an employment claim by a former officer of that subsidiary. The jury verdict, if judgment had been entered on that verdict, could have been for approximately \$30,000,000. The parties settled the lawsuit post-verdict for a cash payment of \$8,000,000. This settlement was entered on December 2, 2004 and the matter was resolved. This amount was accrued at September 30, 2004.

Amendments to the Credit Facility

On November 18, 2004, the Company obtained a third amendment to the Credit Facility effective on November 24, 2004 upon the initial funding of Senior Convertible Notes. The amendment modified certain provisions of the Credit Facility to permit the issuance of the Senior Convertible Notes, modified certain definitions, specified mandatory debt reduction amounts and required a fee.

On December 10, 2004, the Company obtained a fourth amendment to the Credit Facility, effective as of June 30, 2004 with respect to specific financial covenants. The amendment modified the Credit Facility to reduce the total facility commitment to a revolving loan commitment of \$82.1 million plus outstanding term loan commitments, modified definitions, specified mandatory debt reduction amounts by quarter, adjusted and redefined financial covenants on a monthly basis, released defined collateral under specified conditions, increased pricing, established the borrowing base at 70% of qualifying assets and required a fee.

Senior Convertible Notes

On November 24, 2004, the Company entered into a purchase agreement for a private placement of \$36.0 million aggregate principal amount of its 6.5% Senior Convertible Notes due 2014. Investors in the notes agreed to a purchase price equal to 100% of the principal amount of the notes. The investors have an option to purchase up to an aggregate of \$14 million in additional notes on or before the later to occur of the 90th day after the closing date and the fifth business day after the Company's next annual meeting of stockholders. The notes require payment of interest semi-annually in arrears at an annual rate of 6.5%, have a stated maturity of November 1, 2014, constitute senior unsecured obligations of the Company, are guaranteed on a senior unsecured basis by the Company's significant domestic subsidiaries, and are convertible at the option of the holder under certain circumstances into shares of the Company's common stock at an initial conversion price of \$3.25 per share, subject to adjustment. The total number of shares of common stock deliverable upon conversion of the notes is limited to approximately 9.4 million shares (including approximately 1.9 million treasury shares), absent receipt of stockholder approval of the issuance of additional shares. Subject to certain conditions, to the extent that more shares would otherwise be issuable upon conversions of notes, the Company will be required to settle such conversions in cash by paying the value of the stock into which the notes would otherwise be

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(UNAUDITED)

convertible. The net proceeds from the sale of the notes were used to prepay a portion of the Company's senior secured Credit Facility and for general corporate purposes. The notes, the guarantees and the shares of common stock issuable upon conversion of the notes to be offered have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or any state securities laws and, unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

Posting of Collateral

Subsequent to June 30, 2004, the Company has posted cash collateral with its surety of \$17.5 million and issued additional letters of credit to its insurance underwriters of \$12.6 million.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Herbert R. Allen, Chief Executive Officer and Interim Chief Financial Officer
- 32.1 Section 1350 Certification

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

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

INTEGRATED ELECTRICAL SERVICES, INC.

Date: December 16, 2004

By: _____ /s/ HERBERT R. ALLEN

Herbert R. Allen

Chief Executive Officer and

Interim Chief Financial Officer