

INTEGRATED ELECTRICAL SERVICES INC

Form 10-Q

February 09, 2011

Table of Contents

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

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

For the Quarterly Period Ended December 31, 2010

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 Number 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 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 No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Accelerated filer

Non-accelerated filer

Smaller reporting
company

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 February 7, 2011 of the issuer's common stock was 14,906,382.

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

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of December 31, 2010 and September 30, 2010</u>	5
<u>Condensed Consolidated Statements of Operations for the Three Months Ended December 31, 2010 and 2009</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2010 and 2009</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4. Controls and Procedures</u>	29
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	30
<u>Item 1A. Risk Factors</u>	30
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
<u>Item 3. Defaults Upon Senior Securities</u>	30
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	30
<u>Item 5. Other Information</u>	30
<u>Item 6. Exhibits</u>	30
<u>Signatures</u>	31
<u>Exhibit 31.1</u>	
<u>Exhibit 31.2</u>	
<u>Exhibit 32.1</u>	
<u>Exhibit 32.2</u>	

Table of Contents

DEFINITIONS

In this quarterly report on Form 10-Q, the words IES, the Company, we, our, ours, and us refer to Integrated Services, Inc. and, except as otherwise specified herein, to our subsidiaries.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

- fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;
- competition in the construction industry, both from third parties and former employees, which could result in the loss of one or more customers or lead to lower margins on new contracts;
- a general reduction in the demand for our services;
- a change in the mix of our customers, contracts and business;
- 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 the potential for vehicle accidents;
- success in transferring, renewing and obtaining electrical and construction licenses;
- 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 or require additional collateral at their discretion;

Table of Contents

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;
the recognition of potential goodwill, fixed asset and other investment impairments;
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;
the recognition of tax benefits related to uncertain tax positions;
complications associated with the incorporation of new accounting, control and operating procedures;
the financial impact of new or proposed accounting regulations;
the ability of our controlling shareholder to take action not aligned with other shareholders;
the possibility that certain of our net operating losses may be restricted or reduced in a change in ownership;
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 delays or 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 our annual report on Form 10-K for the year ended September 30, 2010, could cause future outcomes to differ materially from those experienced previously or from those expressed in this quarterly report and our aforementioned annual report on Form 10-K. We undertake no obligation to publicly update or revise information concerning our restructuring efforts, borrowing availability, cash position or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this quarterly report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties, and risks described herein.

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

Table of Contents

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

	December 31, 2010 (Unaudited)	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 26,946	\$ 32,924
Accounts receivable:		
Trade, net of allowance of \$3,207 and \$3,360, respectively	82,630	88,252
Retainage	17,281	17,083
Inventories	13,542	12,682
Costs and estimated earnings in excess of billings on uncompleted contracts	13,545	12,566
Prepaid expenses and other current assets	4,976	5,449
Total current assets	158,920	168,956
LONG-TERM RECEIVABLES, net of allowance of \$4,082 and \$4,069, respectively	422	440
PROPERTY AND EQUIPMENT, net	12,419	19,846
GOODWILL	3,981	3,981
OTHER NON-CURRENT ASSETS, net	11,561	11,882
Total assets	\$ 187,303	\$ 205,105
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 609	\$ 808
Accounts payable and accrued expenses	55,939	67,799
Billings in excess of costs and estimated earnings on uncompleted contracts	14,992	17,109
Total current liabilities	71,540	85,716
LONG-TERM DEBT, net of current maturities	10,405	10,448
LONG-TERM DEFERRED TAX LIABILITY	1,045	1,046
OTHER NON-CURRENT LIABILITIES	6,190	6,314
Total liabilities	89,180	103,524
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 14,732,076 and 14,773,904 outstanding, respectively	154	154
Treasury stock, at cost, 675,726 and 633,898 shares, respectively	(9,770)	(13,677)
Additional paid-in capital	167,710	171,510

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Accumulated other comprehensive income		(88)
Retained deficit	(59,971)	(56,318)
Total stockholders' equity	98,123	101,581
Total liabilities and stockholders' equity	\$ 187,303	\$ 205,105

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
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE INFORMATION)

	Three Months Ended December 31, 2010 (Unaudited)	Three Months Ended December 31, 2009 (Unaudited)
Revenues	\$ 113,649	\$ 120,248
Cost of services	102,477	100,316
Gross profit	11,172	19,932
Selling, general and administrative expenses	18,021	19,267
Gain on sale of assets	(6,729)	(65)
Asset Impairment	3,551	
Restructuring charges		698
Income (loss) from operations	(3,671)	32
Interest and other (income) expense:		
Interest expense	599	1,068
Interest income	(25)	(57)
Other (income) expense, net	(15)	(119)
Interest and other expense, net	559	892
Income (loss) from operations before income taxes	(4,230)	(860)
Benefit from income taxes	(578)	(55)
Net income (loss)	\$ (3,652)	\$ (805)
Income (loss) per share		
Basic	\$ (0.25)	\$ (0.06)
Diluted	\$ (0.25)	\$ (0.06)
Shares used in the computation of loss per share (Note 5):		
Basic	14,447,357	14,396,017
Diluted	14,447,357	14,396,017

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
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Three Months Ended December 31, 2010 (Unaudited)	Three Months Ended December 31, 2009 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,652)	\$ (805)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	(16)	305
Deferred financing cost amortization	84	75
Depreciation and amortization	1,137	1,376
Gain on sale of assets	(6,729)	(65)
Asset Impairment	3,551	
Non-cash compensation expense	170	318
Equity in (gains) losses of investment	96	(5)
Changes in operating assets and liabilities		
Accounts receivable	5,457	9,869
Inventories	(860)	875
Costs and estimated earnings in excess of billings	(979)	1,436
Prepaid expenses and other current assets	473	(186)
Other non-current assets	(286)	(4)
Accounts payable and accrued expenses	(11,860)	(16,339)
Billings in excess of costs and estimated earnings	(2,117)	(4,723)
Other non-current liabilities	(125)	(389)
Net cash provided by (used in) continuing operations	(15,084)	(8,262)
Net cash provided by (used in) operating activities	(15,084)	(8,262)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(391)	(76)
Proceeds from sales of property and equipment	9,859	109
Distribution from unconsolidated affiliates	(57)	
Net cash provided by (used in) investing activities	9,411	33
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt		744
Repayments of debt	(242)	(796)
Purchase of treasury stock	(63)	(98)
Net cash used in financing activities	(305)	(150)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,978)	(8,379)
CASH AND CASH EQUIVALENTS, beginning of period	32,924	64,174

CASH AND CASH EQUIVALENTS, end of period	\$	26,946	\$	55,795
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SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION:

Cash paid for interest	\$	513	\$	1,676
Cash paid for income taxes	\$	30	\$	33

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

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

1. BUSINESS

Integrated Electrical Services, Inc., a Delaware corporation, was founded in June 1997 to establish a leading national provider of electrical services, focusing primarily on the commercial, industrial, residential, low voltage and service and maintenance markets. We provide a broad range of services, including designing, building, maintaining and servicing electrical, data communications and utilities systems for commercial, industrial and residential customers. The words IES, the Company, we, our, and us refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our wholly-owned subsidiaries.

Our electrical contracting services include design of electrical systems within a building or complex, procurement and installation of wiring and connection to power sources, end-use equipment and fixtures, as well as contract maintenance. We service commercial, industrial and residential markets and have a diverse customer base, including: general contractors; property managers and developers; corporations; government agencies; municipalities; and homeowners. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house experts, or projects which require specific market expertise, such as hospitals or power generation facilities. We also focus on service, maintenance and certain renovation and upgrade work, which tends to be either recurring or have lower sensitivity to economic cycles, or both. We provide services for a variety of projects, including: high-rise residential and office buildings, power plants, manufacturing facilities, data centers, chemical plants, refineries, wind farms, solar facilities, municipal infrastructure and health care facilities and residential developments, including both single-family housing and multi-family apartment complexes. We also offer low voltage contracting services as a complement to our electrical contracting business. Our low voltage services include design and installation of structured cabling for corporations, universities, data centers and switching stations for data communications companies as well as the installation of fire and security alarm systems. Our utility services consist of overhead and underground installation and maintenance of electrical and other utilities transmission and distribution networks, installation and splicing of high-voltage transmission and distribution lines, substation construction and substation and right-of-way maintenance. Our maintenance services generally provide recurring revenues that are typically less affected by levels of construction activity.

CONTROLLING SHAREHOLDER

At December 31, 2010, Tontine Capital Partners, L.P. together with its affiliates (Tontine), was the controlling shareholder of the Company's common stock. Accordingly, Tontine has the ability to exercise significant control of our affairs, including the election of directors and any action requiring the approval of shareholders, including the approval of any potential merger or sale of all or substantially all assets or divisions of the Company, or the Company itself. In its most recent Schedule 13D, Tontine stated that it has no current plans to make any material change in the Company's business or corporate structure. For a more complete discussion on our relationship with Tontine, please refer to Note 2, Controlling Shareholder to these Condensed Consolidated Financial Statements.

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 unless otherwise described herein. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. During interim periods, we follow the same accounting policies disclosed in our annual report on Form 10-K for the year ended September 30, 2010. Please refer to the *Notes to Consolidated Financial Statements* in our annual report on Form 10-K for the year ended September 30, 2010, when reviewing our interim financial results set forth herein.

RECLASSIFICATIONS

In connection with a change in reportable segments, certain prior period amounts have been reclassified to conform to the current year presentation of our segments with no effect on net income (loss) or retained deficit. Specifically, our Communications segment has been separated from our Commercial & Industrial segment. For additional information,

please refer to Note 6, Operating Segments to these Condensed Consolidated Financial Statements.

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

SALE OF FACILITY

On November 30, 2010, a subsidiary of the Company (Seller) and Siemens Energy, Inc., a Delaware corporation, (Buyer), executed an Asset Purchase Agreement (the Agreement) providing for the sale of substantially all the assets and assumption of certain liabilities of a non-strategic manufacturing facility engaged in manufacturing and selling fabricated metal buildings housing electrical equipment such as switchgears, motor starters and control systems. In addition, another subsidiary of the Company which is also a party to the Agreement, sold certain real property where the fabrication facilities are located.

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, rights to names which include IES , business records relating to pre-closing matters, which are required by law to be retained by Seller, performed contracts and fulfilled purchase orders, insurance policies, non-assignable permits, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain customer contracts, vendor contracts and financing leases as well as accounts and trade payables arising in the ordinary course of business other than inter company account and trade payables.

The purchase price of \$10,690 may be adjusted upward or downward in the event of variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. The transaction was completed on December 10, 2010 at which time we recognized a gain of \$6,763.

LONG-TERM RECEIVABLES

In March 2009, in connection with a construction project entering bankruptcy, we transferred \$3,992 of trade accounts receivable to long-term receivables and initiated breach of contract and mechanics lien foreclosure actions against the project s general contractor and owner, respectively. At the same time, we reserved the costs in excess of billings of \$278 associated with this receivable.

In March 2010, we reserved the remaining balance of \$3,714. We will continue to monitor the proceedings and evaluate any potential future collectability. For additional information, please refer to Note 11, Commitments and Contingencies *Legal Matters* to these Condensed Consolidated Financial Statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, investments, accounts payable, a line of credit, notes payable issued to finance insurance policies, and a \$10,000 senior subordinated loan agreement (the Tontine Term Loan). We believe that the carrying value of financial instruments, with the exception of the Tontine Term Loan and our cost method investment in EnerTech Capital Partners II L.P. (EnerTech), in the accompanying consolidated balance sheets, approximates their fair value due to their short-term nature.

We estimate that the fair value of the Tontine Term Loan is \$10,926 based on comparable debt instruments at December 31, 2010. For additional information, please refer to Note 4, Debt and Liquidity *The Tontine Capital Partners Term Loan* to these Condensed Consolidated Financial Statements.

We estimate that the fair value of our investment in EnerTech is \$1,838 at December 31, 2010. For additional information, please refer to Note 8, Securities and Equity Investments *Investment in EnerTech Capital Partners II L.P.* to these Condensed Consolidated Financial Statements.

ASSET IMPAIRMENT

During the three months ended December 31, 2010, the Company recorded a pretax non-cash asset impairment charge of \$3,551 related to internally-developed capitalized software. The Company ceased use of the software in December, 2010. As a result, the software has a fair value of zero. The net charge of \$3,551 was recorded separately in the accompanying consolidated statements of operations as a component of loss from operations.

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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 of construction in progress, fair value assumptions in analyzing goodwill, investments, intangible assets and long-lived asset impairments and adjustments, allowance for doubtful accounts receivable, stock-based compensation, reserves for legal matters, assumptions regarding estimated costs to exit certain divisions, realizability of deferred tax assets, and self-insured claims liabilities and related reserves.

SEASONALITY AND QUARTERLY FLUCTUATIONS

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

SUBSEQUENT EVENTS

We have reviewed subsequent events through the date of filing.

2. CONTROLLING SHAREHOLDER

On April 30, 2010, we prepaid \$15,000 of the original \$25,000 principal outstanding on the Tontine Term Loan; accordingly \$10,000 remains outstanding under the Tontine Term Loan.

On May 13, 2010, Tontine, filed an amended Schedule 13D. Although Tontine has not indicated any plans to alter its ownership level, should Tontine reconsider its investment plans and sell its controlling interest in the Company, a change in ownership would occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses for federal and state income tax purposes. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our Revolving Credit Facility (as defined below), bonding agreements with our sureties and employment contracts with certain officers and employees of the Company.

3. STRATEGIC ACTIONS

In the first three months of our 2009 fiscal year, we began a new restructuring program (the 2009 Restructuring Plan) that was designed to consolidate operations within our three segments. Our plan was to streamline local project and support operations, which were managed through regional operating centers, and to capitalize on the investments we had made in the previous year to further leverage our resources. In addition, as a result of the continuing significant effects of the recession, during the third quarter of fiscal year 2009, we implemented a more expansive cost reduction program, by further reducing administrative personnel, primarily in the corporate office, and consolidating our Commercial and Industrial administrative functions into one shared service center. The 2009 Restructuring Plan was completed in our fiscal year 2010.

During the three months ended December 31, 2010 and 2009, respectively, we incurred pre-tax restructuring charges, including severance benefits and facility consolidations and closings, of \$0 and \$698 associated with the 2009 Restructuring Plan. Costs incurred related to our Communications segment were \$0 and \$16 for the three months ended December 31, 2010 and 2009, respectively. Costs incurred related to our Residential segment were \$0 and \$0

for the three months ended December 31, 2010 and 2009, respectively. Costs incurred related to our Commercial & Industrial segment were \$0 and \$700 for the three months ended December 31, 2010 and 2009, respectively. Costs related to our Corporate office were \$0 and a reduction of \$18 for the three months ended December 31, 2010 and 2009, respectively.

Table of Contents

INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
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4. DEBT AND LIQUIDITY

Debt consists of the following:

	December 31, 2010	September 30, 2010
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	\$ 10,000	\$ 10,000
Insurance Financing Agreements	448	653
Capital leases	566	603
Total debt	11,014	11,256
Less Short-term debt and current maturities of long-term debt	(609)	(808)
Total long-term debt	\$ 10,405	\$ 10,448

Future payments on debt at December 31, 2010 are as follows:

	Capital Leases	Term Debt	Total
2011	\$ 233	\$ 448	\$ 681
2012	297		297
2013	287	10,000	10,287
2014	24		24
2015			
Thereafter			
Less: Imputed Interest	(275)		(275)
Total	\$ 566	\$ 10,448	\$ 11,014

For the three months ended December 31, 2010 and 2009, we incurred interest expense of \$599 and \$1,068, respectively.

The Revolving Credit Facility

On May 12, 2006, we entered into a Loan and Security Agreement (the "Loan and Security Agreement"), for a revolving credit facility (the "Revolving Credit Facility") with Bank of America, N.A. and certain other lenders.

On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement without incurring termination charges. Under the terms of the amended Revolving Credit Facility, the size of the facility remains at \$60,000, and the maturity date has been extended to May 12, 2012. In connection with the amendment, we incurred an amendment fee of \$225 and legal fees of \$53, which are being amortized over 24 months.

The Revolving Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries' existing and future acquired assets, exclusive of collateral provided to our surety providers. The Revolving Credit Facility contains customary affirmative, negative and financial covenants. The Revolving Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock.

Table of Contents

INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)

Borrowings under the Revolving Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventories. Under the terms of the Revolving Credit Facility in effect as of December 31, 2010, interest for loans and letters of credit fees is based on our Total Liquidity, which is calculated for any given period as the sum of the average daily availability for such period plus the average daily unrestricted cash on hand for such period as follows:

Total Liquidity	Annual Interest Rate for Loans	Annual Interest Rate for Letters of Credit
Greater than or equal to \$60,000	LIBOR plus 3.00% or Base Rate plus 1.00%	3.00% plus 0.25% fronting fee
Greater than \$40,000 and less than \$60,000	LIBOR plus 3.25% or Base Rate plus 1.25%	3.25% plus 0.25% fronting fee
Less than or equal to \$40,000	LIBOR plus 3.50% or Base Rate plus 1.50%	3.50% plus 0.25% fronting fee

At December 31, 2010, we had \$13,059 available to us under the Revolving Credit Facility, based on a borrowing base of \$26,060, \$13,001 in outstanding letters of credit, and no outstanding borrowings.

At December 31, 2010, our Total Liquidity was \$45,660. For the three months ended December 31, 2010, we paid no interest for loans under the Revolving Credit Facility and a weighted average interest rate, including fronting fees, of 3.25% for letters of credit. In addition, we are charged monthly in arrears (1) an unused commitment fee of 0.50%, and (2) certain other fees and charges as specified in the Loan and Security Agreement, as amended. Finally, the Revolving Credit Facility would have been subject to termination charges of 0.25% of the total borrowing capacity if such termination occurred on or after May 12, 2011 and \$50 anytime thereafter.

As of December 31, 2010, we were subject to the financial covenant under the Revolving Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability is less than \$25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least \$25,000 for a period of 60 consecutive days. As of December 31, 2010, our Total Liquidity was in excess of \$25,000 for the previous 60 days. Had our Total Liquidity been less than \$25,000 for the previous 60 days at December 31, 2010, we would not have met the 1.0:1.0 fixed charge coverage ratio test.

In the event that we are not able to meet the financial covenant of our amended Revolving Credit Facility in the future and are unsuccessful in obtaining a waiver from our lenders, the Company expects to have adequate cash on hand to fully collateralize our outstanding letters of credit and to provide sufficient cash for ongoing operations.

The Tontine Term Loan

On December 12, 2007, we entered into the Tontine Term Loan, a \$25,000 senior subordinated loan agreement, with Tontine. The Tontine Term Loan bears interest at 11.0% per annum and is due on May 15, 2013. Interest is payable quarterly in cash or in-kind at our option. Any interest paid in-kind will bear interest at 11.0% in addition to the loan principal. On April 30, 2010, we prepaid \$15,000 of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to TCP Overseas Master Fund II, L.P. (TCP 2), an affiliate of Tontine. We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty. The Tontine Term Loan is subordinated to our existing Revolving Credit Facility with Bank of America, N.A. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers. The Tontine Term Loan contains no financial covenants or restrictions on dividends or distributions to stockholders.

Insurance Financing Agreements

From time to time, we elect to finance our commercial insurance policy premiums over a term equal to or less than the term of the policy (Insurance Financing Agreements). We previously referred to these financing arrangements as the Camden Notes. The terms of these Insurance Financing Agreements vary from several months to two years at interest rates ranging from 4.59% to 5.99%. The Insurance Financing Agreements are collateralized by the gross unearned premiums on the respective insurance policies plus any payments for losses claimed under the policies. The remaining balances due on the Insurance Financing Agreements at December 31, 2010 and September 30, 2010 were \$448 and \$653, respectively.

Table of Contents

INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)

5. EARNINGS PER SHARE

Our restricted shares granted under the 2006 Equity Incentive Plan participate in any dividends declared on our common stock. Accordingly, the restricted shares are considered participating securities under the two-class method, which is an earnings allocation formula that determines earnings for each class of common stock and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. Under the two-class method, net income is reduced by the amount of dividends declared in the current period for each class of stock and by the contractual amounts of dividends that must be paid for the current period. The remaining earnings are then allocated to common stock and participating securities to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. Diluted earnings per share is calculated using the treasury stock and if converted methods for potential common stock. Basic earnings per share is calculated as income (loss) available to common stockholders, divided by the weighted average number of common shares outstanding during the period. If the effect is dilutive, participating securities are included in the computation of basic earnings per share. Our participating securities do not have a contractual obligation to share in the losses in any given period. As a result, these participating securities will not be allocated any losses in the periods of net losses, but will be allocated income in the periods of net income using the two-class method.

The tables that follow reconcile the components of the basic and diluted earnings per share for the three months ended December 31, 2010 and 2009:

	Three Months Ended	
	December 31,	
	2010	2009
Numerator:		
Net loss attributable to common shareholders	\$ (3,652)	\$ (805)
Net income attributable to restricted shareholders		
Net loss	\$ (3,652)	\$ (805)
Denominator:		
Weighted average common shares outstanding basic	14,447,357	14,396,017
Effect of dilutive stock options and non-vested restricted stock		
Weighted average common and common equivalent shares outstanding diluted	14,447,357	14,396,017
Loss per share		
Basic	\$ (0.25)	\$ (0.06)
Diluted	\$ (0.25)	\$ (0.06)

6. OPERATING SEGMENTS

In 2010, our Communications segment was separated from our Commercial & Industrial segment to form a new operating segment. The decision to report Communications as a separate segment was made as the Company changed its internal reporting structure and the communications business gained greater significance as a percentage of consolidated revenues, gross profit and operating income. Moreover, the Communications segment is a separate and specific part of future strategic growth plans of the Company. We now manage and measure performance of our business in three distinct operating segments: Communications, Residential and Commercial & Industrial. These segments are reflective of how the Company's Chief Operating Decision Maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The Company's CODM is its Chief Executive Officer.

Prior period disclosures have been adjusted to reflect the change in reportable segments.

The Communications segment consists of low voltage installation, design, planning and maintenance for commercial and industrial communications industries.

The Residential segment consists of electrical installation, replacement and renovation services in single-family, condominium, townhouse and low-rise multifamily housing units.

Table of Contents

INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)

The Commercial & Industrial segment provides electrical design, installation, renovation, engineering and maintenance and replacement services in facilities such as office buildings, high-rise apartments and condominiums, theaters, restaurants, hotels, hospitals and critical-care facilities, school districts, light manufacturing and processing facilities, military installations, airports, outside plants, network enterprises, switch network customers, manufacturing and distribution centers, water treatment facilities, refineries, petrochemical and power plants, and alternative energy facilities.

We also have a Corporate office that provides general and administrative as well as support services to our three operating segments.

The significant accounting policies of the segments are the same as those described in the summary of significant accounting policies, set forth in Note 2 to our Consolidated Financial Statements included in our annual report on Form 10-K for the year ended September 30, 2010. We allocate certain corporate selling, general and administrative costs across our segments to more accurately reflect the costs associated with operating each segment. Transactions between segments are eliminated in consolidation.

Segment information for continuing operations for the three months ended December 31, 2010 and 2009 is as follows:

	Three Months Ended December 31, 2010					
	Commercial & Industrial					
	Communications	Residential	Industrial	Corporate		Total
Revenues	\$ 19,921	\$ 26,045	\$ 67,683	\$		\$ 113,649
Cost of services	16,710	21,460	64,307			102,477
Gross profit	3,211	4,585	3,376			11,172
Selling, general and administrative	2,320	4,779	7,572	3,350		18,021
Loss (gain) on sale of assets		(22)	(6,805)	98		(6,729)
Asset Impairment				3,551		3,551
Income (loss) from operations	\$ 891	\$ (172)	\$ 2,609	\$ (6,999)		\$ (3,671)
Other data:						
Depreciation and amortization expense	\$ 26	\$ 99	\$ 235	\$ 777		\$ 1,137
Capital expenditures	\$	\$ 27	\$ 226	\$ 138		\$ 391
Total assets	\$ 20,486	\$ 27,680	\$ 82,401	\$ 56,736		\$ 187,303

	Three Months Ended December 31, 2009					
	Commercial & Industrial					
	Communications	Residential	Industrial	Corporate		Total
Revenues	\$ 18,652	\$ 28,992	\$ 72,604	\$		\$ 120,248
Cost of services	15,295	22,148	62,873			100,316
Gross profit	3,357	6,844	9,731			19,932

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Selling, general and administrative	1,886	6,023	7,957	3,401	19,267
Loss (gain) on sale of assets		(2)	(63)		(65)
Restructuring charge	16		700	(18)	698
Income (loss) from operations	\$ 1,455	\$ 823	\$ 1,137	\$ (3,383)	\$ 32
Other data:					
Depreciation and amortization expense	\$ 28	\$ 142	\$ 331	\$ 875	\$ 1,376
Capital expenditures	\$ 31	\$ 12	\$ 1	\$ 32	\$ 76
Total assets	\$ 19,243	\$ 32,817	\$ 98,882	\$ 95,389	\$ 246,331

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

We have no operations or long-lived assets outside of the United States.

7. STOCKHOLDERS EQUITY

The 2006 Equity Incentive Plan (as amended, the 2006 Plan) became effective on May 12, 2006. The 2006 Plan provides for grants of both stock options and common stock, including restricted stock and performance-based restricted stock. We have approximately 1.3 million shares of common stock authorized for issuance under the 2006 Plan.

Treasury Stock

On December 12, 2007, our Board of Directors authorized the repurchase of up to one million shares of our common stock. This share repurchase program was authorized through December 2009. As of the program's termination on December 31, 2009, we repurchased 886,360 shares of common stock at an average cost of \$16.24 per share.

During the three months ended December 31, 2010, we repurchased 18,153 shares of common stock from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Plan, 4,000 shares of restricted stock were issued from treasury stock to an employee and 27,675 unvested shares of restricted stock were forfeited by former employees and returned to treasury stock.

During the three months ended December 31, 2009, we repurchased 14,492 shares of common stock from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Plan, and 17,300 unvested shares of restricted stock were forfeited by former employees and returned to treasury stock.

Restricted Stock

We granted 4,000 shares of restricted stock to an employee during the three months ended December 31, 2010, of which none have been forfeited as of December 31, 2010. These restricted shares, which were granted at a price of \$3.51, will vest on September 28, 2012.

During the three months ended December 31, 2010 and 2009, we recognized \$153 and \$280, respectively, in compensation expense related to all restricted stock awards. As of December 31, 2010, the unamortized compensation cost related to outstanding unvested restricted stock was \$669. We expect to recognize \$359 related to these awards during the remaining nine months of our 2011 fiscal year, and \$310 thereafter.

All the restricted shares granted under the 2006 Plan (vested or unvested) participate in dividends, if any, issued to common shareholders.

Stock Options

Our determination of the fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, our expected stock price volatility over the term of the awards, the risk-free rate of return, and actual and projected employee stock option exercise behaviors. The expected life of stock options is an input variable under the Black-Scholes option pricing model, but it is not considered under the binomial option pricing model that we utilize.

During the three months ended December 31, 2010 and 2009, we granted no stock options.

During the three months ended December 31, 2010 and 2009, we recognized \$17 and \$38, respectively, in compensation expense related to previously granted stock options.

Table of Contents

INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)

The following table summarizes activity regarding our stock option and incentive compensation plans:

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2010	158,500	\$ 18.64
Options granted		
Exercised		
Expired		
Forfeited		
Outstanding, December 31, 2010	158,500	\$ 18.64
Exercisable, December 31, 2010		\$

The following table summarizes all options outstanding and exercisable at December 31, 2010:

Range of Exercise Prices	Outstanding as of December 31, 2010	Remaining Contractual Life in Years	Weighted-Average Exercise Price	Exercisable as of December 31, 2010	
				Weighted-Average Exercise Price	Weighted-Average Exercise Price
\$12.31 \$18.79	123,500	5.86	\$ 17.02	123,500	\$ 17.02
\$20.75 \$25.08	35,000	6.47	24.46	33,333	24.65
	158,500	6.00	\$ 18.66	156,833	\$ 18.64

Upon exercise of stock options, it is our policy to first issue shares from treasury stock, then to issue new shares. Unexercised options expire between July 2016 and January 2018.

8. SECURITIES AND EQUITY INVESTMENTS*Investment in EnerTech Capital Partners II L.P.*

Our investment in EnerTech is approximately 2% of the overall ownership in EnerTech at December 31, 2010 and September 30, 2010. As such, we accounted for this investment using the cost method of accounting.

EnerTech's investment portfolio periodically results in unrealized losses reflecting a possible, other-than temporary impairment of our investment. If facts arise that lead us to determine that any unrealized losses are not temporary, we would write-down our investment in EnerTech through a charge to other expense in the period of such determination. The carrying value of our investment in EnerTech at December 31, 2010 and September 30, 2010 was \$1,995 and \$2,005, respectively, and is currently recorded as a component of Other Non-Current Assets in our Consolidated Balance Sheets. The following table presents the reconciliation of the carrying value and unrealized gains (losses) to the fair value of the investment in EnerTech as of December 31, 2010 and September 30, 2010:

	December 31, 2010	September 30, 2010
Carrying value	\$ 1,995	\$ 2,005

Unrealized gains (losses)		(157)		(179)	
Fair value		\$	1,838	\$	1,826

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

On December 31, 2010, EnerTech's general partner, with the consent of the fund's investors, extended the fund for an additional year through December 31, 2011. The fund will terminate on this date unless extended by the fund's valuation committee. The fund may be extended for another one-year period through December 31, 2012 with the consent of the fund's valuation committee.

Arbinet Corporation

On May 15, 2006, we received a distribution from our investment in EnerTech of 32,967 shares in Arbinet Corporation (Arbinet), formerly Arbinet-thexchange Inc. The investment is an available-for-sale marketable security and is currently recorded as a component of Other Non-Current Assets in our Consolidated Balance Sheets. Unrealized gains and losses are recorded to other comprehensive income. On June 11, 2010, Arbinet consummated a 1-for-4 reverse common stock split. As a result of this transaction, we held 8,241 shares of Arbinet common stock.

On November 22, 2010, we sold our shares of Arbinet common stock for \$57, net of commissions and other fees. As a result of this sale, we recognized a \$96 loss in Other Expense in our Consolidated Statements of Operation, which was previously recorded as an unrealized loss included in other comprehensive income.

The amount of unrealized holding losses included in other comprehensive income at December 31, 2010 and September 30, 2010 is \$0 and \$88, respectively. Both the carrying and market value of the investment at December 31, 2010 and September 30, 2010 were \$0 and \$60, respectively.

9. EMPLOYEE BENEFIT PLANS

Executive Savings Plan

Under the Executive Deferred Compensation Plan adopted on July 1, 2004 (the Executive Savings Plan), certain employees are permitted to defer a portion (up to 75%) of their base salary and/or bonus for a Plan Year. The Compensation Committee of the Board of Directors may, in its sole discretion, credit one or more participants with an employer deferral (contribution) in such amount as the Committee may choose (Employer Contribution). The Employer Contribution, if any, may be a fixed dollar amount, a fixed percentage of the participant's compensation, base salary, or bonus, or a matching amount with respect to all or part of the participant's elective deferrals for such plan year, and/or any combination of the foregoing as the Committee may choose.

On February 13, 2009, we suspended Company matching cash contributions to employee's contributions due to the significant impact the economic recession has had on the Company's financial performance. As such, there have been no contributions by us to the Executive Savings Plan for the three months ended December 31, 2010 and 2009.

10. FAIR VALUE MEASUREMENTS

Fair value is considered the price to sell an asset, or transfer a liability, between market participants on the measurement date. Fair value measurements assume that the asset or liability is (1) exchanged in an orderly manner, (2) the exchange is in the principal market for that asset or liability, and (3) the market participants are independent, knowledgeable, able and willing to transact an exchange.

Fair value accounting and reporting establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions and expands disclosures about fair value measurements. Considerable judgment is required to interpret the market data used to develop fair value estimates. As such, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

Table of Contents

INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010, are summarized in the following table by the type of inputs applicable to the fair value measurements:

	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	\$ 17,862	\$ 17,862	\$	\$
Executive Savings Plan assets	643	643		
Executive Savings Plan liabilities	(731)	(731)		
Total	\$ 17,774	\$ 17,774	\$	\$

Below is a description of the inputs used to value the assets summarized in the preceding table:

Level 1 Inputs represent unadjusted quoted prices for identical assets exchanged in active markets.

Level 2 Inputs include directly or indirectly observable inputs other than Level 1 inputs such as quoted prices for similar assets exchanged in active or inactive markets; quoted prices for identical assets exchanged in inactive markets; and other inputs that are considered in fair value determinations of the assets.

Level 3 Inputs include unobservable inputs used in the measurement of assets. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or related observable inputs that can be corroborated at the measurement date.

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time we are a party to various claims, lawsuits and other legal proceedings that arise in the ordinary course of business. We maintain various insurance coverages to minimize the financial risk associated with these proceedings. None of these proceedings, separately or in the aggregate, are expected to have a material adverse effect on our financial position, results of operations or cash flows. With respect to all such proceedings, we record reserves when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. We expense routine legal costs related to these proceedings as they are incurred.

The following is a discussion of certain of our significant legal matters:

Centerpoint Project

We are a co-plaintiff in a breach of contract and mechanics lien foreclosure action in Maricopa County, Arizona superior court. The defendants are Centerpoint Construction, LLC (Centerpoint Construction) and Tempe Land Company, LLC (Tempe Land Company), the general contractor and owner, respectively, of a condominium and retail development project in Tempe, Arizona. In December 2008, Tempe Land Company filed for Chapter 11 bankruptcy reorganization in the U.S. Bankruptcy Court in Phoenix, Arizona. The principal amount of our claim is approximately \$3,992, exclusive of interest, attorneys fees and costs.

Our breach of contract claim for non-payment arises out of labor and services that we provided to the project property pursuant to written subcontract agreements with Centerpoint Construction. We do not have reason to believe that Centerpoint Construction has assets to satisfy any significant part of the claim. Our claim against Tempe Land Company is based on Arizona's mechanics lien statutes, which provide for security interests against real property for the value of services provided to real property by a contractor, such as us. The possibility of collection by foreclosing on the mechanics lien depends on two primary issues: (1) whether our, and the other mechanics lien claimants ,

encumbrance against the project is superior to the project lender's deeds of trust on the project, and (2) whether the project property, if sold at foreclosure, would raise sufficient proceeds to pay the collective mechanics' lien claims brought by us and the other mechanics' lien claimants.

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

In March 2009, following Tempe Land Company filing for bankruptcy, we transferred \$3,992 of trade accounts receivable to long-term receivable. At the same time, we reserved the costs in excess of billings of \$278 associated with this receivable.

In April 2010, the project property was sold at foreclosure to the project lender. In this sale, the project lender acquired the project property subject only to superior encumbrances. The priority of the mechanics lien claims over the project lender's deeds of trust will be determined at trial, anticipated to occur in April 2011. If our and the other lien claimants' claims are determined to not have priority over the project lender's deeds of trust, we will not be able to collect on our lien. If our and the other claimants' lien claims are determined to have priority over the lender's deeds of trust, it is estimated that net proceeds of approximately \$20,000 from a subsequent foreclosure sale of the property would be required to pay our and the other lien claimants' claims in full. If our and the other lien claimants' claims have priority and the property is sold at foreclosure for less than the approximate \$20,000 necessary to satisfy our and the other lien claims in full, then each lien claim will be paid pro rata from the proceeds of the foreclosure sale.

As a result of the April 2010 foreclosure sale and the uncertainties associated with the outcome of the lawsuit, we have determined that there is a reasonable possibility, but not a probability, of collection of our claim and have written-off the remaining \$3,714 long-term receivable. Despite this write-off, we continue to believe in the merit of, and will vigorously pursue, our claims.

Ward Transformer Site

One of our subsidiaries has been identified as one of more than 200 potentially responsible parties (PRPs) with respect to the clean-up of an electric transformer resale and reconditioning facility, known as the Ward Transformer Site, located in Raleigh, North Carolina. The facility built, repaired, reconditioned and sold electric transformers from approximately 1964 to 2005. We did not own or operate the facility but a subsidiary that we acquired in July 1999 is believed to have sent transformers to the facility during the 1990's. During the course of its operation, the facility was contaminated by Polychlorinated Biphenyls (PCBs), which also have been found to have migrated off the site.

Four PRPs have commenced clean-up of on-site contaminated soils under an Emergency Removal Action pursuant to a settlement agreement and Administrative Order on Consent entered into between the four PRPs and the U.S. Environmental Protection Agency (EPA) in September 2005. We are not a party to that settlement agreement or Order on Consent. In April 2009, two of these PRPs, Carolina Power and Light Company and Consolidation Coal Company, filed suit against us and most of the other PRPs in the U.S. District Court for the Eastern District of North Carolina (Western Division) to contribute to the cost of the clean-up. In addition to the on-site clean-up, the EPA has selected approximately 50 PRPs to which it sent a Special Notice Letter in late 2008 to organize the clean-up of soils off site and address contamination of groundwater and other miscellaneous off-site issues. We were not a recipient of that letter.

Based on our investigation to date, there is evidence to support our defense that our subsidiary contributed no PCB contamination to the site. In addition, we have tendered a demand for indemnification to the former owner of our subsidiary that may have transacted business with the facility and are exploring the existence and applicability of insurance policies that could mitigate potential exposure. As of December 31, 2010 and September 30, 2010, we have not recorded a reserve for this matter, as we believe the likelihood of our responsibility for damages is not probable and a potential range of exposure is not estimable.

Risk Management

We are subject to large deductibles on our property and casualty insurance policies. As a result, many of our claims are effectively self-insured. Many claims against our insurance are in the form of litigation. At December 31, 2010, we had \$5,366 accrued for self-insurance liabilities, including \$931 for general liability coverage losses. We are also subject to construction defect liabilities, primarily within our Residential segment. We believe the likely range of our potential liability for construction defects is from \$250 to \$750. As of December 31, 2010, we had reserved \$476 for these claims.

Some of our insurance carriers require us to post letters of credit as a means of guaranteeing performance under our policies. If an insurance carrier has reasonable cause to effect payment under a letter of credit, we would be required to reimburse the lenders under our Revolving Credit Facility for such letter of credit. At December 31, 2010, \$12,620 of our outstanding letters of credit were used to collateralize our high deductible insurance programs.

Table of Contents

**INTEGRATED ELECTRICAL SERVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)
(UNAUDITED)**

Surety

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a surety. Those bonds provide a guarantee to the customer that we will perform under the terms of our contract and that we will pay our subcontractors and vendors. If we fail to perform under the terms of our contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the sureties for any expenses or outlays they incur on our behalf. To date, we have not been required to make any reimbursements to our sureties for bond-related costs.

As is common in the surety industry, sureties issue bonds on a project-by-project basis and can decline to issue bonds at any time. We believe that our relationships with our sureties will allow us to provide surety bonds as they are required. However, current market conditions, as well as changes in our sureties' assessment of our operating and financial risk, could cause our sureties to decline to issue bonds for our work. If our sureties decline to issue bonds for our work, our alternatives would include posting other forms of collateral for project performance, such as letters of credit or cash, seeking bonding capacity from other sureties, or engaging in more projects that do not require surety bonds. In addition, if we are awarded a project for which a surety bond is required but we are unable to obtain a surety bond, the result can be a claim for damages by the customer for the costs of replacing us with another contractor.

As of December 31, 2010, we utilized cash and accumulated interest thereon (as included in Other Non-Current Assets in our Consolidated Balance Sheet) of \$6,587 to collateralize our obligations to our former sureties. On December 23, 2010, a former surety released \$3,500 of letters of credit back to the Company. As of December 31, 2010, the estimated cost to complete our bonded projects was approximately \$123,092. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. On May 7, 2010, we entered into agreements with two primary sureties. We believe the bonding capacity presently provided by these sureties are adequate for our current operations and will be adequate for our operations for the foreseeable future.

Other Commitments and Contingencies

Between October 2004 and September 2005, we sold all or substantially all of the assets of certain of our wholly-owned subsidiaries. These sales were made to facilitate the business needs and purposes of the organization as a whole. Since we were a consolidator of electrical contracting businesses, often the best candidate to purchase these assets was a previous owner of the assets who usually was still associated with the subsidiary, often as an officer of that subsidiary, or otherwise. To facilitate the desired timing, the sales were made with more than ordinary reliance on the representations of the purchaser who was, in those cases, often the person most familiar with the business sold. As these sales were assets sales, rather than stock sales, we may be required to fulfill obligations that were assigned or sold to others, if the purchaser is unwilling or unable to perform the transferred liabilities. If this were to occur, we would seek reimbursement from the purchasers. These potential liabilities will continue to diminish over time. As of December 31, 2010, all projects transferred have been completed. To date, we have not been required to perform on any projects sold under this divestiture program.

From time to time, we may enter into firm purchase commitments for materials such as copper or aluminum wire which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specific intervals at a fixed price over the term. As of December 31, 2010, we had no such open purchase commitments.

Table of Contents

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

You should read the following discussion of our financial condition and results of operations in conjunction with our audited consolidated financial statements, the related Notes, and management's discussion and analysis included in our annual report on Form 10-K for the year ended September 30, 2010. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to the risk factors discussed in the Risk Factors section of our annual report on Form 10-K for the year ended September 30, 2010, and in the Disclosures Regarding Forward-Looking Statements, and elsewhere in this quarterly report on Form 10-Q. Actual results may differ materially from those contained in any forward-looking statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operation are based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. Preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses.

We have identified the accounting principles that we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. These accounting policies are those related to revenue recognition, the assessment of goodwill impairment, our allowance for doubtful accounts receivable, the recording of our self-insurance liabilities and our estimation of the valuation allowance for deferred tax assets. These accounting policies, as well as others, are described in Part 2. Item 8. Financial Statements and Supplementary Data Note 2, Summary of Significant Accounting Policies in our annual report on Form 10-K for the year ended September 30, 2010.

In 2010, our Communications segment was separated from our Commercial & Industrial segment to form a new operating segment. The decision to report Communications as a separate segment was made as the Company changed its internal reporting structure and the communications business gained greater significance as a percentage of consolidated revenues, gross profit and operating income. Moreover, the Communications segment is a separate and specific part of future strategic growth plans of the Company. We now manage and measure performance of our business in three distinct operating segments: Communications, Residential and Commercial & Industrial.

SALE OF FACILITY

On November 30, 2010, a subsidiary of the Company (Seller) and Siemens Energy, Inc., a Delaware corporation, (Buyer), executed an Asset Purchase Agreement (the Agreement) providing for the sale of substantially all the assets and assumption of certain liabilities of a non-strategic manufacturing facility engaged in manufacturing and selling fabricated metal buildings housing electrical equipment such as switchgears, motor starters and control systems. In addition, another subsidiary of the Company which is also a party to the Agreement, sold certain real property where the fabrication facilities are located.

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, rights to names which include IES , business records relating to pre-closing matters, which are required by law to be retained by Seller, performed contracts and fulfilled purchase orders, insurance policies, non-assignable permits, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain customer contracts, vendor contracts and financing leases as well as accounts and trade payables arising in the ordinary course of business other than inter company account and trade payables.

The purchase price of \$10.7 million may be adjusted upward or downward in the event of variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. The transaction was completed on December 10, 2010 at which time we recognized a gain of \$6.8 million.

ASSET IMPAIRMENT

During the three months ended December 31, 2010, the Company recorded a pretax non-cash asset impairment charge of \$3.5 million related to internally-developed capitalized software. The Company ceased use of the software in

December, 2010. As a result, the software has a fair value of zero. The net charge of \$3.5 million was recorded separately in the accompanying consolidated statements of operations as a component of loss from operations.

Table of Contents**SEASONALITY AND QUARTERLY FLUCTUATIONS**

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

RESTRUCTURING PROGRAM

In the first quarter of our 2009 fiscal year, we began a new restructuring program (the 2009 Restructuring Plan) that was designed to consolidate operations within our three segments. Our plan was to streamline local project and support operations, which were managed through regional operating centers, and to capitalize on the investments we had made in the previous year to further leverage our resources. The 2009 Restructuring Plan was completed in our fiscal year 2010. In addition, as a result of the continuing significant effects of the recession, during the third quarter of fiscal year 2009, we implemented a more expansive cost reduction program, by further reducing administrative personnel, primarily in the corporate office, and consolidating our Commercial and Industrial administrative functions into one shared service center.

Details regarding the components of the restructuring charges are described in Part 1. Item 1. Condensed Consolidated Financial Statements Note 3, Strategic Actions of this report, which is incorporated herein by reference.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 COMPARED
TO THE THREE
MONTHS ENDED DECEMBER 31, 2009**

The following tables present selected historical results of operations of IES and its subsidiaries, with dollar amounts in millions and percentages expressed as a percent of revenues:

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Revenues	\$ 113.6	100.0%	\$ 120.2	100.0%
Cost of services	102.5	90.2%	100.3	83.4%
Gross profit	11.1	9.8%	19.9	16.6%
Selling, general and administrative expenses	18.0	15.9%	19.3	16.0%
Gain on sale of assets	(6.7)	(5.9)%	(0.1)	(0.1)%
Asset Impairment	3.5	3.1%		%
Restructuring charges		%	0.7	0.6%
Income (loss) from operations	(3.7)	(3.3)%		%
Interest and other expense, net	0.5	0.5%	0.9	0.7%
Loss before income taxes	(4.2)	(3.8)%	(0.9)	(0.7)%
Provision for income taxes	(0.5)	(0.5)%	(0.1)	%
Net loss	\$ (3.7)	(3.3)%	\$ (0.8)	(0.7)%

Table of Contents**Revenues**

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Communications	\$ 19.9	17.5%	\$ 18.6	15.5%
Residential	26.0	22.9%	29.0	24.1%
Commercial & Industrial	67.7	59.6%	72.6	60.4%
Total Consolidated	\$ 113.6	100.0%	\$ 120.2	100.0%

Consolidated revenues for the three months ended December 31, 2010 were \$6.6 million less than the three months ended December 31, 2009, a reduction of 5.5%. While our Communications segment revenues increased during the three months ended December 31, 2010, revenues for our Commercial & Industrial and Residential segments declined during the three months ended December 31, 2010, primarily due to a nationwide decline in construction activity as a result of the challenging economic environment.

Revenues in our Communications segment increased \$1.3 million, or 7.0%, during the three months ended December 31, 2010, compared to the three months ended December 31, 2009. This increase is due to an increase in data center projects and more business from our national accounts.

Residential segment revenues decreased \$3.0 million during the three months ended December 31, 2010, a decrease of 10.3%, compared to the three months ended December 31, 2009. This decrease is primarily attributable to the declines in multi-family housing construction due to a nationwide decline in apartment occupancy rates and increased difficulty in obtaining project financing. This resulted in the deferral of certain projects and the cancellation of other projects. Revenues also declined in single-family construction as a result of the continued effect of high unemployment rates and uncertain economic conditions on new home sales.

Revenues in our Commercial & Industrial segment decreased \$4.9 million, or 6.7%, during the three months ended December 31, 2010, compared to the three months ended December 31, 2009. Many of our Commercial & Industrial operating locations experienced revenue shortfalls, as most industry sectors have continued to reduce, delay or cancel proposed construction projects. We also experienced increased competition from residential contractors who have been affected by the housing slowdown for less specialized retail work with lower barriers to entry.

Gross Profit

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Communications	\$ 3.2	16.1%	\$ 3.4	18.3%
Residential	4.6	17.7%	6.8	23.4%
Commercial & Industrial	3.3	4.9%	9.7	13.4%
Total Consolidated	\$ 11.1	9.8%	\$ 19.9	16.6%

Our consolidated gross profit for the three months ended December 31, 2010 declined by \$8.8 million, or 44.2% compared to consolidated gross profit for the three months ended December 31, 2009. Our overall gross profit as a percentage of revenue decreased to 9.8% during the three months ended December 31, 2010, compared to 16.6% during the three months ended December 31, 2009, primarily due to lower margin construction projects and to a lesser extent increases in costs of materials.

Our Communications segment's gross profit decreased \$0.2 million during the three months ended December 31, 2010 compared to the three months ended December 31, 2009. The decrease in gross profit is attributed to lower margin on competitively bid projects.

During the quarter ended December 31, 2010, our Residential segment experienced a \$2.2 million reduction in gross profit compared to the three months ended December 31, 2009. Gross margin percentage in the Residential segment declined to 17.7% during the three months ended December 31, 2010. We attribute much of the decline in Residential's gross margin to a decrease in higher margin, multi-family construction projects and increases in costs of materials. Additionally, the decline in both single-family and multi-family projects resulted in much steeper competition which has had a negative impact on gross margins in both types of work.

Our Commercial & Industrial segment's gross profit during the three months ended December 31, 2010 decreased \$6.4 million compared to the three months ended December 31, 2009. The Commercial & Industrial segment's gross profit for the three months ended December 31, 2010 included a charge of \$1.5 million relating to issues associated with the execution of a materially complete project in Nebraska.

Table of Contents**Selling, General and Administrative Expenses**

	Three Months Ended December 31, 2010		Three Months Ended December 31, 2009	
	\$	%	\$	%
	(Dollars in millions, Percentage of revenues)			
Communications	\$ 2.3	11.6%	\$ 1.9	10.2%
Residential	4.8	18.5%	6.0	20.7%
Commercial & Industrial	7.6	11.2%	8.0	11.0%
Corporate	3.3		3.4	
Total Consolidated	\$ 18.0	15.9%	\$ 19.3	16.0%

Selling, general and administrative expenses are those costs not directly associated with performing work for our customers. These costs consist primarily of compensation and benefits related to corporate and business unit management, occupancy and utilities, training, professional services, consulting fees, travel, and certain types of depreciation and amortization.

During the three months ended December 31, 2010, our selling, general and administrative expenses were \$18.0 million, a decrease of \$1.3 million, or 6.7%, over the three months ended December 31, 2009. The reduction in 2010 expenses was primarily due to decreases of \$1.0 million in employment expenses as a result of our ongoing cost reduction efforts and \$0.2 million in accounting, legal and other professional fees and a decrease of \$0.4 million in the allowance for doubtful accounts offset by \$0.5 million in Corporate severance costs and \$0.4 million in increased occupancy costs. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 11, Commitments and Contingencies Legal Matters of this report.

Restructuring Charges

The 2009 Restructuring Plan was completed in our fiscal year 2010. We recognized the following costs during the three months ended December 31, 2010 and 2009:

	Three Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Severance compensation	\$	\$ 0.6
Consulting and other charges		0.1
Total restructuring charges	\$	\$ 0.7

Interest and Other Expense, Net

	Three Months Ended December 31,	
	2010	2009
	(Dollars in thousands)	
Interest expense	\$ 0.5	\$ 1.0
Debt prepayment penalty and deferred cost amortization	0.1	0.1
Total interest expense	0.6	1.1
Interest income		(0.1)
Other income (expense)		(0.1)

Total interest and other expense, net	\$	0.6	\$	0.9
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Table of Contents

During the three months ended December 31, 2010, we incurred total interest expense of \$0.6 million on an average debt balance of \$10.0 million for the Tontine Term Loan and an average letter of credit balance of \$15.9 million and an average unused line of credit balance of \$44.1 million under the Revolving Credit Facility. This compared to total interest expense of \$1.1 million for the three months ended December 31, 2009, on an average debt balance of \$25.0 million on the Tontine Term Loan and an average letter of credit balance of \$24.1 million and an average unused line of credit balance of \$35.9 million.

During the three months ended December 31, 2010, we generated \$0.0 million in interest income on an average cash and cash equivalents balance of \$31.9 million. During the three months ended December 31, 2009, we generated \$0.1 million in interest income on an average cash and cash equivalents balance of \$55.4 million. Interest income was derived from average interest rates of 0.4% during the three months ended December 31, 2010, and 0.6% during the three months ended December 31, 2009.

Provision for Income Taxes

On May 12, 2006, we had a change in ownership as defined in Internal Revenue Code Section 382. As such, our net operating loss utilization after the change date will be subject to Section 382 limitations for federal income taxes and some state income taxes. We have provided valuation allowances on all net operating losses where it is determined it is more likely than not that they will expire without being utilized.

The benefit from income taxes increased from \$0.1 million for the three months ended December 31, 2009 to \$0.6 million for the three months ended December 31, 2010. The increase in the benefit from income taxes for the three months ended December 31, 2010 is attributable to the increase in net loss, a decrease in state income taxes and an increase in the provision for uncertain tax benefits.

Working Capital

	December 31, 2010	September 30, 2010
	(Dollars in millions)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 26.9	\$ 32.9
Accounts receivable		
Trade, net of allowance of \$3.5 and \$3.4 respectively	82.7	88.3
Retainage	17.3	17.1
Inventories	13.5	12.7
Costs and estimated earnings in excess of billings on uncompleted contracts	13.5	12.6
Prepaid expenses and other current assets	5.0	5.4
Total current assets	\$ 158.9	\$ 169.0
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 0.6	\$ 0.8
Accounts payable and accrued expenses	55.9	67.8
Billings in excess of costs and estimated earnings on uncompleted contracts	15.0	17.1
Total current liabilities	\$ 71.5	\$ 85.7
Working capital	\$ 87.4	\$ 83.3

During the three months ended December 31, 2010 working capital increased by \$4.1 million from September 30, 2010, reflecting a \$10.1 million decrease in current assets and a \$14.2 million decrease in current liabilities during the period.

During the three months ended December 31, 2010 our current assets decreased by \$10.1 million, or 6.0%, to \$158.9 million, as compared to \$169.0 million as of September 30, 2010. Days sales outstanding (DSOs) decreased to 80 days as of December 31, 2010 from 83 days as of September 30, 2010. This improvement was driven predominantly by increased collection efforts. Our secured position, resulting from our ability to secure liens against our customers' over due receivables, reasonably assures that collection will occur eventually to the extent that our security retains value. In light of the volatility of the current financial markets, we closely monitor the collectability of our receivables.

Table of Contents*Surety*

Many customers, particularly in connection with new construction, require us to post performance and payment bonds issued by a surety. Those bonds provide a guarantee to the customer that we will perform under the terms of our contract and that we will pay our subcontractors and vendors. If we fail to perform under the terms of our contract or to pay subcontractors and vendors, the customer may demand that the surety make payments or provide services under the bond. We must reimburse the sureties for any expenses or outlays they incur on our behalf. To date, we have not been required to make any reimbursements to our sureties for bond-related costs.

As is common in the surety industry, sureties issue bonds on a project-by-project basis and can decline to issue bonds at any time. We believe that our relationships with our sureties will allow us to provide surety bonds as they are required. However, current market conditions, as well as changes in our sureties' assessment of our operating and financial risk, could cause our sureties to decline to issue bonds for our work. If our sureties decline to issue bonds for our work, our alternatives would include posting other forms of collateral for project performance, such as letters of credit or cash, seeking bonding capacity from other sureties, or engaging in more projects that do not require surety bonds. In addition, if we are awarded a project for which a surety bond is required but we are unable to obtain a surety bond, the result can be a claim for damages by the customer for the costs of replacing us with another contractor.

As of December 31, 2010, we utilized cash and accumulated interest thereon (as included in Other Non-Current Assets in our Consolidated Balance Sheet) of \$6.6 to collateralize our obligations to our former sureties. On December 23, 2010, a former surety released \$3.5 million of letters of credit back to the Company. As of December 31, 2010, the estimated cost to complete our bonded projects was approximately \$123.1 million. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. On May 7, 2010, we entered into agreements with two primary sureties. We believe the bonding capacity presently provided by these sureties are adequate for our current operations and will be adequate for our operations for the foreseeable future.

The Revolving Credit Facility

On May 12, 2006, we entered into a Loan and Security Agreement (the "Loan and Security Agreement"), for a revolving credit facility (the "Revolving Credit Facility") with Bank of America, N.A. and certain other lenders. On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement without incurring termination charges. Under the terms of the amended Revolving Credit Facility, the size of the facility remains at \$60.0 million, and the maturity date has been extended to May 12, 2012. In connection with the amendment, we incurred an amendment fee of \$0.2 million and legal fees of \$0.1 million, which are being amortized over 24 months. Borrowings under the Revolving Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventory.

The Revolving Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries' existing and future acquired assets, exclusive of collateral provided to our surety providers. The Revolving Credit Facility contains customary affirmative, negative and financial covenants. The Revolving Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock.

At December 31, 2010, we had \$13.1 million available to us under the Revolving Credit Facility, based on a borrowing base of \$26.1 million, \$13.0 million in outstanding letters of credit, and no outstanding borrowings.

As of December 31, 2010, we were subject to the financial covenant under the Revolving Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability is less than \$25.0 million and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least \$25.0 million for a period of 60 consecutive days. As of December 31, 2010, our Total Liquidity was in excess of \$25.0 million for the previous 60 days. Had our Total Liquidity been less than \$25.0 million for the previous 60 days at December 31, 2010, we would not have met the 1.0:1.0 fixed charge coverage ratio test.

The Tontine Term Loan

On December 12, 2007, we entered into a \$25.0 million senior subordinated loan agreement (the "Tontine Term Loan") with Tontine Capital Partners, L.P., a related party ("Tontine"). The Tontine Term Loan bears interest at 11.0% per annum and is due on May 15, 2013. Interest is payable quarterly in cash or in-kind at our option. Any interest paid

in-kind will bear interest at 11.0% in addition to the loan principal. On April 30, 2010, we prepaid \$15.0 million of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to TCP Overseas Master Fund II, L.P. (TCP 2), an affiliate of Tontine. We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty. The Tontine Term Loan is subordinated to our Revolving Credit Facility with Bank of America, N.A. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers. The Tontine Term Loan contains no financial covenants or restrictions on dividends or distributions to stockholders.

Table of Contents

Insurance Financing Agreements

From time to time, we elect to finance our commercial insurance policy premiums over a term equal to or less than the term of the policy (Insurance Financing Agreements). We previously referred to these financing arrangements as the Camden Notes. The terms of these Insurance Financing Agreements vary from several months to two years at interest rates ranging from 4.59% to 5.99%. The Insurance Financing Agreements are collateralized by the gross unearned premiums on the respective insurance policies plus any payments for losses claimed under the policies. The remaining balances due on the Insurance Financing Agreements at December 31, 2010 and September 30, 2010 were \$0.4 million and \$0.7 million, respectively.

Liquidity and Capital Resources

As of December 31, 2010, we had cash and cash equivalents of \$26.9 million, working capital of \$87.4 million, \$13.0 million of letters of credit outstanding and \$13.1 million of available capacity under our Revolving Credit Facility. We anticipate that the combination of cash on hand, cash flows from operations and available capacity under our Revolving Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. Our ability to generate cash flow is dependent on many factors, including demand for our services, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables, and our ability to borrow on our amended Revolving Credit Facility, if needed. We were not required to test our covenants under our Revolving Credit Facility in the period as our Total Liquidity was greater than the minimum under our Resolving Credit Facility. Had we been required to test our covenants, we would have failed at December 31, 2010.

We continue to closely monitor the financial markets and general national and global economic conditions. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted in the future by adverse conditions in the financial markets.

Operating Activities

Our cash flow from operations is primarily influenced by cyclical demand for our services, operating margins and the type of services we provide but can also be influenced by working capital needs such as the timing of our receivable collections. Working capital needs are generally lower during our fiscal first and second quarters due to the seasonality that we experience in many regions of the country. Operating activities used net cash of \$15.1 million during the three months ended December 31, 2010, as compared to \$8.3 million of net cash provided in the three months ended December 31, 2009. The change in operating cash flows in the three months ended December 31, 2010 was due to the year to date net loss of \$3.7 million, increased collections of accounts receivable and retainage of \$5.5 million, coupled with reduced overall working capital needs during the three months ended December 31, 2010, primarily as a result of lower levels of revenue activity and improved material management. Additionally, the \$11.9 million reduction of our accounts payable and accrued expenses during the three months ended December 31, 2010 was primarily due to the overall reduction in revenues along with the associated decrease in purchased materials compared to the three months ended December 31, 2009.

Investing Activities

In the three months ended December 31, 2010, we provided net cash from investing activities of \$9.4 million as compared to \$0.0 million of net cash used in investing activities in the three months ended December 31, 2009. Investing activities in the three months ended December 31, 2010 included \$9.9 million of proceeds from the sale of substantially all assets of a non-strategic manufacturing facility partially offset by \$0.4 million used for capital expenditures. Investing activities in the three months ended December 31, 2009 included \$0.1 million used for capital expenditures, partially offset by \$0.1 million of proceeds from the sale of equipment.

Financing Activities

Financing activities used net cash of \$0.3 million in the three months ended December 31, 2010 compared to \$0.2 million used in the three months ended December 31, 2009. Financing activities in the three months ended December 31, 2010 included \$0.2 million used for payments of debt and \$0.1 million used for the acquisition of treasury stock. Financing activities in the three months ended December 31, 2009 included \$0.1 million used for the purchase of treasury stock and \$0.8 million used for payments of debt netted against \$0.7 million provided by new

financing.

Table of Contents

Bonding Capacity

At December 31, 2010, we had adequate surety bonding capacity under our surety agreements. Our ability to access this bonding capacity is at the sole discretion of our surety providers. As of December 31, 2010, the expected cumulative cost to complete for projects covered by our surety providers was \$123.1 million. We believe we have adequate remaining available bonding capacity to meet our current needs, subject to the sole discretion of our surety providers. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 11, Commitments and Contingencies *Surety* of this report.

Controlling Shareholder

On April 30, 2010, we prepaid \$15.0 million of the original \$25.0 million principal outstanding on the Tontine Term Loan; accordingly \$10.0 million remains outstanding under the Tontine Term Loan.

On May 13, 2010, Tontine, filed an amended Schedule 13D indicating its ownership level of 58.7%. Although Tontine has not indicated any plans to alter its ownership level, should Tontine reconsider its investment plans and sell its controlling interest in the Company, a change in ownership would occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses for federal and state income tax purposes. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our Revolving Credit Facility, bonding agreements with our sureties and employment contracts with certain officers and employees of the Company.

Off-Balance Sheet Arrangements and Contractual Obligations

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

We enter into non-cancelable operating leases for many of our vehicle and equipment needs. These leases allow us to retain our cash when we do not own the vehicles or equipment, and we pay a monthly lease rental fee. At the end of the lease, we have no further obligation to the lessor. We may cancel or terminate a lease before the end of its term. Typically, we would be liable to the lessor for various lease cancellation or termination costs and the difference between the fair market value of the leased asset and the implied book value of the leased asset as calculated in accordance with the lease agreement.

Some of our customers and vendors require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. At December 31, 2010, \$12.6 million of our outstanding letters of credit were to collateralize our customers and vendors. Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral, as is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At December 31, 2010, an additional \$12.6 million of our outstanding letters of credit were to collateralize our insurance programs.

From time to time, we may enter into firm purchase commitments for materials such as copper wire and aluminum wire, among others, which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specified intervals at a fixed price over the term. As of December 31, 2010, we did not have any open purchase commitments.

Many of our customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. In the event that we fail to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under our bond. Our relationship with our sureties is such that we will indemnify the sureties for any expenses they incur in connection with any of the bonds they issue on our behalf. To date, we have not incurred any costs to indemnify our sureties for expenses they incurred on our behalf. As of December 31, 2010, we utilized cash and accumulated interest thereon of \$6.6 million to collateralize our bonding programs.

Table of Contents

As of December 31, 2010, our future contractual obligations due by September 30 of each of the following fiscal years include (1) (in millions):

	2011	2012	2013	2014	2015	2016	Thereafter	Total
Long-term debt obligations	\$ 0.5	\$	\$ 10.0	\$	\$	\$	\$	\$ 10.5
Operating lease obligations	\$ 4.5	\$ 5.3	\$ 3.1	\$ 1.5	\$ 0.8	\$ 0.2	\$ 0.9	\$ 16.3
Capital lease obligations	\$ 0.2	\$ 0.3	\$ 0.3	\$	\$	\$	\$	\$ 0.8
Total	\$ 5.2	\$ 5.6	\$ 13.4	\$ 1.5	\$ 0.8	\$ 0.2	\$ 0.9	\$ 27.6

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

Outlook

We anticipate that the combination of cash on hand, cash flows and available capacity under our Revolving Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. We expect that our capital expenditures will not exceed \$1.0 to \$1.5 million for the fiscal year ending on September 30, 2011. Our ability to generate cash flow is dependent on our successful finalization of our restructuring efforts and many other factors, including demand for our products and services, existing or pending legislative or regulatory actions related to renewable energy and the purchase of homes, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables and our ability to borrow on our amended Revolving Credit Facility.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management is actively involved in monitoring exposure to market risk and continues to develop and utilize appropriate risk management techniques. Our exposure to significant market risks includes fluctuations in commodity prices for copper, aluminum, steel and fuel. Commodity price risks may impact our results of operations due to the fixed price nature of many of our contracts. We are also exposed to interest rate risk with respect to our outstanding debt obligations, if any, on the Revolving Credit Facility.

ITEM 4. CONTROLS AND PROCEDURES**Disclosure controls and procedures**

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2010 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and regulations. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 11, Commitments and Contingencies *Legal Matters* of this report, which is incorporated herein by reference. We are not aware of any litigation or pending litigation that we believe will have a material impact on our results of operations or our financial position other than those matters that are disclosed in Note 11.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed under Item 1.A. *Risk Factors* in our annual report on Form 10-K for the year ended September 30, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

- 3.1 Second Amended and Restated Certificate of Incorporation of Integrated Electrical Services, Inc. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed on May 12, 2006)
- 3.2 Bylaws of Integrated Electrical Services, Inc. (Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8, filed on May 12, 2006)
- 10.1 Entry into a Material Definitive Agreement, dated as of November 30, 2010, by and among Integrated Electrical Services, Inc. and its subsidiaries and Siemens Energy, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 6, 2010)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Michael J. Caliel, Chief Executive Officer (1)
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Terry L. Freeman, Chief Financial Officer (1)
- 32.1 Section 1350 Certification of Michael J. Caliel, Chief Executive Officer (1)
- 32.2 Section 1350 Certification of Terry L. Freeman, Chief Financial Officer (1)

(1) Filed herewith.

Table of Contents

**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: February 9, 2011

By: /s/ Terry L. Freeman

Terry L. Freeman

**Senior Vice President and Chief Financial
Officer**

Table of Contents

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