UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2013

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

5433 Westheimer Road, Suite 500, Houston, Texas 77056

(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 x 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 x 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	x	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 x

On August 12, 2013, there were 15,105,846 shares of common stock outstanding.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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PART I

DEFINITIONS

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

CAUTIONARY STATEMENT 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 discuss future expectations, contain projections of financial condition of results of operation, or state other forward-looking information. In some cases, you can identify forward-looking statements by terminology such as may, will, could, should, expect, plan, project, intend, anticipate, believe, predict, potential, pursue, target, continue, the negative of such terms or other comparable terminology. These statements involve risks and uncertainties that could cause the Company s actual future outcomes to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

- fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;
- competition in our respective industries, 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 projects;
- 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 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 businesses into the Company or new types of work or new processes into our divisions;
- the cost and availability of qualified labor;
- accidents resulting from the physical hazards associated with our work and the potential for 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, damages 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;

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, long-lived assets 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 tax benefits 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 potentially impede the collectability of our accounts receivable;

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 and financing and surety arrangements;

additional closures or sales of facilities could result in significant future charges and a significant disruption of our operations;

the successful integration of acquisitions;

the inability to consummate the transactions contemplated by the Agreement and Plan of Merger, dated as of March 13, 2013, by and among IES, MISCOR Group, Ltd., an Indiana corporation (MISCOR), and IES Subsidiary Holdings, Inc., a Delaware corporation and a wholly-owned subsidiary of IES (Merger Sub), pursuant to which MISCOR will be merged with and into Merger Sub, with Merger Sub surviving as a wholly-owned subsidiary of IES (the Merger); and

the inability to achieve, or difficulties and delays in achieving, synergies and cost savings relating to the Merger.

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You should understand that the foregoing, as well as other risk factors discussed in this document, including those listed in Part II, Item 1A of this report under the heading *Risk Factors* as well as the other risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, and Part II, Item 1A of the Quarterly Report on Form 10-Q for the three months ended March 31, 2013, could cause future outcomes to differ materially from those experienced previously or those expressed in such forward-looking statements. We undertake no obligation to publicly update or revise any information, including information concerning our controlling shareholder, net operating losses, restructuring efforts, borrowing availability, cash position, pro forma financial statements 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.

INDUSTRY AND MARKET DATA

This Quarterly Report on Form 10-Q may include certain industry and market data that we obtain from independent industry publications or other published independent sources. These publications generally state that the information contained therein has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. While we believe that these publications are reliable, we do not independently verify any of the data from third-party sources nor do we ascertain the underlying economic or operational assumptions relied upon therein.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands, Except Share Information)

	June 30, 2013	September 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,134	$ 18,729
Restricted cash	7,052	7,155
Accounts receivable:		
Trade, net of allowance of $1,174 and $1,788, respectively	67,547	76,259
Retainage	18,525	17,004
Inventories	12,280	15,141
Costs and estimated earnings in excess of billings on uncompleted contracts	6,517	8,180
Assets held for sale	900	1,110
Prepaid expenses and other current assets	3,474	3,807
Total current assets	131,429	147,385
LONG-TERM RECEIVABLE, net of allowance of $0 and $0, respectively	203	259
PROPERTY AND EQUIPMENT, net	5,433	6,480
GOODWILL	8,631	4,446
INTANGIBLE ASSETS, net of amortization of $329	561	
OTHER NON-CURRENT ASSETS, net	5,216	6,143
Total assets	$ 151,473	$ 164,713
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,198	$ 456
Current maturities of long-term debt, related party		10,000
Current maturities of long-term debt, total	3,198	10,456
Accounts payable and accrued expenses	65,530	68,673
Billings in excess of costs and estimated earnings on uncompleted contracts	22,133	25,255
Total current liabilities	90,861	104,384
LONG-TERM DEBT, net of current maturities	1,667	24
LONG-TERM DEFERRED TAX LIABILITY	285	285
OTHER NON-CURRENT LIABILITIES	6,617	6,863
Total liabilities	99,430	111,556
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 15,105,846 and 14,977,400 outstanding, respectively	154	154
Treasury stock, at cost, 301,956 and 430,402 shares, respectively	(2,839)	(4,546)
Additional paid-in capital	162,763	163,871

Accumulated other comprehensive income	19	
Retained deficit	(108,054)	(106,322)
Total stockholders equity	52,043	53,157
Total liabilities and stockholders equity	$ 151,473	$ 164,713

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In Thousands, Except Share Information)

	Three Months Ended June 30, 2013	2012
Revenues	$ 121,552	$ 116,128
Cost of services	105,899	101,872
Gross profit	15,653	14,256
Selling, general and administrative expenses	16,576	14,956
Gain on sale of assets	(16)	(9)
Income (loss) from operations	(907)	(691)
Interest and other (income) expense:		
Interest expense	372	524
Interest income		(8)
Other (income) expense, net	(649)	(2)
Interest and other expense, net	(277)	514
Loss from continuing operations before income taxes	(630)	(1,205)
Provision (benefit) for income taxes	95	8
Net loss from continuing operations	$ (725)	$ (1,213)
Discontinued operations (Note 12)		
Loss from discontinued operations	(421)	(1,996)
(Benefit) provision for income taxes	(8)	(33)
Net loss from discontinued operations	(413)	(1,963)
Net loss	$ (1,138)	$ (3,176)
Unrealized gain on interest hedge, before tax	8	
Comprehensive loss	$ (1,130)	$ (3,176)
Loss per share:		
Continuing operations	$ (0.05)	$ (0.08)
Discontinued operations	$ (0.03)	$ (0.14)
Basic	$ (0.08)	$ (0.22)
Diluted loss per share:		
Continuing operations	$ (0.05)	$ (0.08)
Discontinued operations	$ (0.03)	$ (0.14)
Diluted	$ (0.08)	$ (0.22)
Shares used in the computation of loss per share		

Basic	14,937,434	14,642,293
Diluted	14,937,434	14,642,293

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In Thousands, Except Share Information)

	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Revenues	$ 370,810	$ 332,734
Cost of services	321,182	291,496
Gross profit	49,628	41,238
Selling, general and administrative expenses	48,104	42,048
Gain on sale of assets	(56)	(165)
Income (loss) from operations	1,580	(645)
Interest and other (income) expense:		
Interest expense	1,425	1,612
Interest income	(123)	(23)
Other (income) expense, net	1,048	(66)
Interest and other expense, net	2,350	1,523
Loss from continuing operations before income taxes	(770)	(2,168)
Provision (benefit) for income taxes	264	40
Net loss from continuing operations	$ (1,034)	$ (2,208)
Discontinued operations (Note 12)		
Loss from discontinued operations	(711)	(7,936)
(Benefit) provision for income taxes	(14)	185
Net loss from discontinued operations	(697)	(8,121)
Net loss	$ (1,731)	$ (10,329)
Unrealized gain on interest hedge, before tax	19	
Income tax related to unrealized gain on interest hedge		
Comprehensive loss	$ (1,712)	$ (10,329)
Loss per share:		
Continuing operations	$ (0.07)	$ (0.15)
Discontinued operations	$ (0.05)	$ (0.56)
Basic	$ (0.12)	$ (0.71)
Diluted loss per share:		
Continuing operations	$ (0.07)	$ (0.15)
Discontinued operations	$ (0.05)	$ (0.56)
Diluted	$ (0.12)	$ (0.71)

Shares used in the computation of loss per share		
Basic	14,882,687	14,616,513
Diluted	14,882,687	14,616,513

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In Thousands)

	Nine Months Ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,731)	$ (10,329)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	26	(519)
Deferred financing cost amortization	257	108
Depreciation and amortization	1,956	1,592
Reserve for uncollectible surety deposit	1,425	
Loss (gain) on sale of assets	80	(315)
Share based compensation expense	945	534
Impairment	200	
Unrealized gain on interest swap	19	
Changes in operating assets and liabilities		
(Increase), decrease in- Accounts receivable	5,676	6,505
Inventories, net	2,861	(8,145)
Costs and estimated earnings in excess of billings	1,664	3,463
Prepaid expenses and other current assets	(1,585)	(1,406)
Other non-current assets	(462)	1,197
Increase, (decrease) in- Accounts payable and accrued expenses	(4,264)	(5,562)
Billings in excess of costs and estimated earnings	(3,122)	7,096
Other non-current liabilities	(285)	(164)
Net cash provided by (used in) operating activities	3,660	(5,945)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(327)	(1,169)
Cash paid in conjunction with business combination	(828)	
Net cash used in investing activities	(1,155)	(1,169)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt	5,000	
Repayments of debt	(10,858)	(194)
Purchase of treasury stock	(346)	(94)
Change in restricted cash	104	(9,512)
Net cash used in financing activities	(6,100)	(9,800)
NET DECREASE IN CASH EQUIVALENTS	(3,595)	(16,914)
CASH AND CASH EQUIVALENTS, beginning of period	18,729	35,577
CASH AND CASH EQUIVALENTS, end of period	$ 15,134	$ 18,663

	2013	2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

Cash paid for interest, net	$	836	$	1,248
Cash paid for income taxes	$	424	$	383

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

1. BUSINESS

Description of the Business

Integrated Electrical Services, Inc., a Delaware corporation, is a leading provider of infrastructure services to the residential, commercial and industrial industries as well as for data centers and other mission critical environments. We operate primarily in the electrical infrastructure markets, with a corporate focus on expanding into other markets through strategic acquisitions or investments. Originally established as IES in 1997, we provide services from our 54 domestic locations as of June 30, 2013. Our operations are organized into three principal business segments, based upon the nature of our current products and services:

Communications Nationwide provider of products and services for mission critical infrastructure, such as data centers, of large corporations.

Residential Regional provider of electrical installation services for single-family housing and multi-family apartment complexes.

Commercial & Industrial Provider of electrical design, construction, and maintenance services to the commercial and industrial markets in various regional markets and nationwide in certain areas of expertise, such as the power infrastructure market.

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 Communications segment is a leading provider of network infrastructure products and services for data centers and other mission critical environments. Services offered include the design, installation and maintenance of network infrastructure for the financial, medical, hospitality, government, high-tech manufacturing, educational and information technology industries. We also provide the design and installation of audio/visual, telephone, fire, wireless and intrusion alarm systems as well as design/build, service and maintenance of data network systems. We perform services across the United States from our ten offices as of June 30, 2013, which includes our Communications headquarters located in Tempe, Arizona, allowing for dedicated onsite maintenance teams at our customer s sites.

Our Residential segment provides electrical installation services for single-family housing and multi-family apartment complexes and CATV cabling installations for residential and light commercial applications. In addition to our core electrical construction work, the Residential segment has expanded its offerings by providing services for the installation of residential solar power, smart meters, electric car charging stations and stand-by generators, both for new construction and existing residences. The Residential segment is made up of 26 total locations as of June 30, 2013, which includes our Residential headquarters in Houston. These segment locations geographically cover Texas, California, the Sun-Belt, and the Western and Mid-Atlantic regions of the United States, including Hawaii.

Our Commercial & Industrial segment is one of the largest providers of electrical contracting services in the United States. The segment offers a broad range of electrical design, construction, renovation, engineering and maintenance services to the commercial and industrial markets. The Commercial & Industrial segment consists of 18 total locations as of June 30, 2013, which includes our Commercial & Industrial headquarters in Houston, Texas. These locations geographically cover Texas, Nebraska, Colorado, Oregon and the Mid-Atlantic region. Services include the 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 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 transmission and distribution and 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. 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. Service and maintenance revenues are derived from service calls and routine maintenance contracts, which tend to be recurring and less sensitive to short term economic fluctuations.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Sale of Non-Strategic Manufacturing Facility

On November 30, 2010, a subsidiary of the Company sold substantially all the assets and 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, to Siemens Energy, Inc. As part of this transaction, Siemens Energy, Inc. also acquired the real property upon which the fabrication facilities are located from a subsidiary of the Company. The transaction was completed on December 10, 2010 for a purchase price of $10,086 at which time we recognized a gain of $6,763.

Sale of Non-Core Electrical Distribution Facility

On February 28, 2011, Key Electrical Supply, Inc. a wholly owned subsidiary of the Company, sold substantially all the assets and certain liabilities of a non-core electrical distribution facility engaged in distributing wiring, lighting, electrical distribution, power control and generators for residential and commercial applications to Elliot Electric Supply, Inc. for a purchase price of $6,676. The loss on this transaction was immaterial.

Related Party Transactions

On December 12, 2007, we entered into a $25,000 senior subordinated loan agreement with Tontine Capital Partners, L.P. and its affiliates (collectively, Tontine), our controlling shareholder (the Tontine Term Loan). The Tontine Term Loan bore interest at 11.0% per annum and was due on May 15, 2013. Interest was payable quarterly in cash or in-kind at our option. Any interest paid in-kind also bore interest at 11.0% in addition to the loan principal. In 2010, we prepaid $15,000, and on February 13, 2013, we repaid the remaining $10,000 of principal on the Tontine Term Loan with existing cash on hand and proceeds from our $5,000 term loan with Wells Fargo Bank, National Association (Wells Fargo).

The Tontine Term Loan was subordinated to the 2012 Credit Facility. The Tontine Term Loan was an unsecured obligation of the Company and its subsidiary borrowers and contained no financial covenants or restrictions on dividends or distributions to stockholders. The Tontine Term Loan was amended on August 9, 2012 in connection with the Company entering into the 2012 Credit Facility. The amendment did not materially impact the Company s obligations under the Tontine Term Loan. For a description of the 2012 Credit Facility, please see Note 4 Debt *The 2012 Revolving Credit Facility* in the Notes to these Consolidated Financial Statements.

While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, Tontine is party to a Registration Rights Agreement with the Company under which it has the ability, subject to certain restrictions, to demand registration of its shares in order to permit unrestricted sales of those shares. On February 20, 2013, pursuant to the Registration Rights Agreement, Tontine delivered a request to the Company for registration of all of its shares of IES common stock, and on February 21, 2013, the Company filed a shelf registration statement (as amended, the Shelf Registration Statement) to register Tontine s shares. The Shelf Registration Statement was declared effective by the U.S. Securities and Exchange Commission (SEC) on June 18, 2013. As long as the Shelf Registration remains effective, Tontine has the ability to resell any or all of its shares from time to time in one or more offerings, as described in the Shelf Registration Statement and in any prospectus supplement filed in connection with an offering pursuant to the Shelf Registration Statement.

On March 13, 2013, the Company and MISCOR Group, Ltd., an Indiana corporation, (MISCOR) announced that they had entered into an Agreement and Plan of Merger, dated March 13, 2013, as amended by the First Amendment to Agreement and Plan of Merger, dated as of July 10, 2013 (as amended, the Merger Agreement), pursuant to which IES will acquire 100% of the common stock of MISCOR in a stock and cash transaction. The transaction is currently expected to close in September 2013. As of July 24, 2013, Tontine beneficially owned 49.9% of the issued and outstanding shares of MISCOR common stock. Given Tontine s significant holdings in both the Company and MISCOR, only the disinterested members of the IES Board of Directors voted on, and unanimously approved, the Merger Agreement. In addition, MISCOR established a special committee of independent directors that voted on and approved the Merger Agreement and recommended approval of the Merger Agreement by the full MISCOR board of directors. After receiving approval from the special committee, the disinterested members of the MISCOR board of directors unanimously approved the Merger Agreement. For additional information on the proposed Merger with

MISCOR, please refer to Note 15, Subsequent Events in the Notes to these Consolidated Financial Statements.

On March 29, 2012, we entered into a sublease agreement with Tontine Associates, LLC, an affiliate of our controlling shareholder, for corporate office space in Greenwich, Connecticut. The lease extends from April 1, 2012 through March 31, 2014, with monthly payments due in the amount of $6. The lease has terms at market rates and payments by the Company are at a rate consistent with that paid by Tontine Associates, LLC to its landlord.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Summary of Significant Accounting Policies

These unaudited 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 fiscal year ended September 30, 2012. Please refer to the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, when reviewing our interim financial results set forth herein.

Adoption of New Accounting Pronouncement

In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity. This amendment to the authoritative guidance associated with comprehensive income was effective for the Company on October 1, 2012 and has been applied retrospectively. We have adopted a single continuous statement of comprehensive income.

In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income. We will adopt this requirement effective October 1, 2013, though it will have no impact to our 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 our insurance policies, a contingent consideration agreement, and an interest rate swap agreement and a term loan with Wells Fargo. 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 evaluate the fair value of the Tontine Term Loan and our investment in EnerTech on a non-recurring basis. While the carrying value of the Tontine Term Loan was zero at June 30, 2013, we estimated the fair value in prior periods using level 3 inputs, including an estimated interest rate reflecting current market conditions. We estimate the fair value of our investment in EnerTech to be $1,047 at June 30, 2013, using level 3 inputs, including quarterly valuation estimations provided by management of the fund.

For a detailed discussion of financial assets and liabilities measured at fair value on a recurring basis, please refer to Note 10, Fair Value Measurements in the Notes to these Consolidated Financial Statements.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Goodwill

Goodwill attributable to each reporting unit is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value is determined using discounted cash flows. These impairment tests are required to be performed at least annually. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates, and weighted average cost of capital for each of the reportable units. On an ongoing basis (absent any impairment indicators), we perform an impairment test annually using a measurement date of September 30.

Asset Impairment

During the fiscal year ended September 30, 2012, the Company recorded a pretax non-cash asset impairment charge of $688 related to real estate held by our Commercial & Industrial segment. The real estate was held within a location selected for closure during 2011. This impairment was to adjust the carrying value of real estate held for sale to the estimated current market value less expected selling expenses, the value at which we expected to sell this real estate within one year. In July 2013, we entered into an agreement to sell this real estate for $200 less than our carrying value. We recorded an additional asset impairment charge of $200 as of June 30, 2013. The real estate is classified as assets held for sale within our Consolidated Balance Sheets.

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, long-lived asset impairments and adjustments, allowance for doubtful accounts receivable, stock-based compensation, reserves for legal matters, realizability of deferred tax assets, and self-insured claims liabilities and related reserves.

Tax Provision

A reliable estimate of the annual effective tax rate cannot be determined. Therefore, the Company is using year to date income tax expense to determine the income tax provision for the three months ended and nine months ended June 30, 2013.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. We use restricted cash to collateralize our letters of credit.

Seasonality and Quarterly Fluctuations

Results of operations from our Residential construction segment are 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 work in these segments 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.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

2. CONTROLLING SHAREHOLDER

At June 30, 2013, Tontine Capital Partners, L.P. and its affiliates (collectively, Tontine), was the controlling shareholder of the Company s common stock. Accordingly, Tontine has the ability to exercise significant control over our affairs, including the election of directors and any action requiring the approval of shareholders.

While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, Tontine is party to a Registration Rights Agreement with the Company under which it has the ability, subject to certain restrictions, to demand registration of its shares in order to permit unrestricted sales of those shares. On February 20, 2013, pursuant to the Registration Rights Agreement, Tontine delivered a request to the Company for registration of all of its shares of IES common stock, and on February 21, 2013, the Company filed the Shelf Registration Statement to register Tontine s shares. The Shelf Registration Statement was declared effective by the SEC on June 18, 2013. As long as the Shelf Registration remains effective, Tontine has the ability to resell any or all of its shares from time to time in one or more offerings, as described in the Shelf Registration Statement and in any prospectus supplement filed in connection with an offering pursuant to the Shelf Registration Statement.

Should Tontine sell or exchange all or a portion of its position in IES, a change in ownership could occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses (NOLs) for federal and state income tax purposes. On January 28, 2013, the Company implemented a tax benefit protection plan (the NOL Rights Plan) that is designed to deter an acquisition of the Company s stock in excess of a threshold amount that could trigger a change of control within the meaning of Internal Revenue Code Section 382. The NOL Rights Plan was filed as an exhibit to our Current Report on Form 8-K, filed with the SEC on January 28, 2013 and any description thereof is qualified in its entirety by the terms of the NOL Rights Plan. There can be no assurance that the NOL Rights Plan will be effective in deterring a change of control or protecting the NOLs. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our 2012 Credit Facility, bonding agreements with our sureties and certain employment contracts with certain officers and employees of the Company.

3. STRATEGIC ACTIONS

The 2011 Restructuring Plan

In the second quarter of our 2011 fiscal year, we began a restructuring program (the 2011 Restructuring Plan) that was designed to consolidate operations within our Commercial & Industrial business. Pursuant to the 2011 Restructuring Plan, we began the closure of certain underperforming facilities within our Commercial & Industrial operations. The 2011 Restructuring Plan was a key element of our commitment to return the Company to profitability.

The facilities directly affected by the 2011 Restructuring Plan were in several locations throughout the country, including Arizona, Florida, Iowa, Massachusetts, Louisiana, Nevada and Texas. These facilities were selected due to business prospects at that time and the extended time frame needed to return the facilities to a profitable position. Closure costs associated with the 2011 Restructuring Plan included equipment and facility lease termination expenses, incremental management consulting expenses and severance costs for employees. The Company is in the final stages of winding down these facilities. As part of our restructuring charges reported within discontinued operations for our Commercial & Industrial segment we recognized $(4) and $(58) in severance reversals, $63 and $951 in consulting services, and zero and $124 in costs related to lease terminations for the nine months ended June 30, 2013 and 2012, respectively.

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(All Amounts in Thousands Except Share Amounts)

The 2011 Restructuring Plan pertained only to our Commercial & Industrial segment. The following table summarizes the activities related to our restructuring activities by component:

	Severance Charges	Consulting Charges	Lease Termination & Other Charges	Total
Restructuring liability at September 30, 2012	$ 201	$ 10	$ 329	$ 539
Restructuring charges (reversals) incurred	(4)	63		59
Cash payments made	(22)	(73)	(147)	(242)
Restructuring liability at June 30, 2013	$ 175	$	$ 182	$ 356

4. DEBT

Debt consists of the following:

	June 30, 2013	September 30, 2012
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	$	$ 10,000
Wells Fargo Term Loan, paid in installments thru Feb 12, 2015, bearing interest at 6% + 3 Month LIBOR	4,167	
Insurance Financing Agreements, bearing interest between 1.99% and 2.75%	601	196
Capital leases and other	97	284
Total debt	4,865	10,480
Less Short-term debt and current maturities of long-term debt	(3,198)	(10,456)
Total long-term debt	$ 1,667	$ 24

Future payments on debt at June 30, 2013 are as follows:

	Capital Leases and Other	Insurance Financing	Term Debt	Total
2013	79	601	625	1,305
2014	26		2,500	2,526
2015			1,042	1,042
2016				