INTEGRATED ELECTRICAL SERVICES INC
Form 424B3
August 16, 2013
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-188182

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

To the Stockholders of Integrated Electrical Services, Inc. and the Shareholders of MISCOR Group, Ltd.:

On or about August 8, 2013, Integrated Electrical Services, Inc. (IES) or MISCOR Group, Ltd. (MISCOR), respectively, mailed to you a joint proxy statement/prospectus relating to the special meeting of stockholders of IES (the IES Special Meeting) and the special meeting of shareholders of MISCOR (the MISCOR Special Meeting), to be held at the date, time and location set forth below, in connection with the proposed merger of MISCOR with and into IES Subsidiary Holdings, Inc., a wholly-owned subsidiary of IES (Merger Sub), with Merger Sub surviving the merger as the surviving corporation, a direct, wholly-owned subsidiary of IES (the merger), pursuant to that certain Agreement and Plan of Merger, dated as of March 13, 2013, as amended by the First Amendment to Agreement and Plan of Merger, dated as of July 10, 2013 (the merger agreement).

The accompanying supplement is provided to update the financial information beginning on page F-1 of the joint proxy statement/prospectus in order to (1) update to August 8, 2013 the unaudited pro forma condensed consolidated financial statements, (2) include the unaudited condensed combined financial statements of IES for the three and nine months ended June 30, 2013, set forth in IES Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed with the Securities and Exchange Commission (the SEC) on August 12, 2013, and (3) include the unaudited condensed consolidated financial statements of MISCOR for the three and six months ended June 30, 2013, set forth in MISCOR s Quarterly Report on Form 10-Q for the period ended June 30, 2013, filed with the SEC on August 9, 2013.

At the IES Special Meeting, IES stockholders will be asked to approve the issuance of shares of IES common stock in the merger, as described in the joint proxy statement/prospectus. The IES board of directors has determined that the merger and the merger agreement are in the best interests of IES and its stockholders and recommends that the stockholders of IES approve the issuance of shares of IES common stock in the merger for the reasons described in the joint proxy statement/prospectus.

At the MISCOR Special Meeting, MISCOR shareholders will be asked to approve the adoption of the merger agreement and the golden parachute compensation proposal to be paid in connection with the merger, as described in the joint proxy statement/prospectus. The MISCOR board of directors has determined that the merger and the merger agreement are in the best interests of MISCOR and its shareholders and recommends that the MISCOR shareholders approve the adoption of the merger agreement and the golden parachute compensation for the reasons described in the joint proxy statement/prospectus.

Your vote is important. We cannot complete the merger unless, among other things, the holders of IES common stock vote to approve the issuance of IES common stock in the merger and the holders of MISCOR common stock vote to adopt the merger agreement. Regardless of whether you plan to attend your company s special meeting, please take the time to submit your proxy, if you have not done so already, by completing and mailing the proxy card delivered to you together with the joint proxy statement/prospectus or, in the case of MISCOR shareholders, by using the telephone or Internet procedures described in the joint proxy statement/prospectus. If your shares of IES common stock or MISCOR common stock are held in street name, you must instruct your broker how to vote those shares, if you have not done so already. If you have any questions about how to submit your proxy, or if you need additional copies of the accompanying supplement, the joint proxy statement/prospectus or the proxy card delivered therewith, voting instructions or the election form, please contact:

Banks and Brokers call toll-free: (800) 579-1639

IES stockholders of record call toll-free: (800) 937-5449

MISCOR shareholders of record call toll-free: (877) 830-4936

Information with respect to the IES Special Meeting and the MISCOR Special Meeting is as described below.

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For IES stockholders:

September 12, 2013 at 9:00 a.m. Central Time at the IES corporate office located at 5433 Westheimer Road,
Suite 500, Houston, Texas 77056.

The IES board of directors recommends that IES stockholders vote FOR the issuance of shares of IES common stock in the merger.

For MISCOR shareholders:

September 12, 2013 at 10:00 a.m. Eastern Daylight Time at the MISCOR corporate office located at 800 Nave Road, SE,
Massillon, Ohio 44646.

The MISCOR board of directors recommends that MISCOR shareholders vote FOR the adoption of the merger agreement.

Before casting your vote, please take the time to review carefully the accompanying supplement and the joint proxy statement/prospectus, including the section entitled Risk Factors beginning on page 30 of the joint proxy statement/prospectus for a discussion of the risks relating to the merger.

Shares of IES common stock trade on the NASDAQ Global Select Market under the symbol IESC. Shares of MISCOR common stock trade on the OTCQB under the symbol MIGL.

Sincerely,

James M. Lindstrom
Chairman of the Board of Directors, President

and Chief Executive Officer
Integrated Electrical Services, Inc.

Michael P. Moore
Chief Executive Officer and President

MISCOR Group, Ltd.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under the accompanying supplement or the joint proxy statement/prospectus or has passed upon the adequacy or accuracy of the disclosure in the accompanying supplement or the joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This supplement to the joint proxy statement/prospectus is dated August 16, 2013, and is first being mailed to IES stockholders and MISCOR shareholders on or about August 20, 2013.

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The unaudited pro forma condensed combined statements of income for the nine months ended June 30, 2013 and for the year ended September 30, 2012 combines the historical consolidated statements of income of Integrated Electrical Services, Inc. (IES), MISCOR Group Ltd. (MISCOR) and Lonestar Renewable Technologies Corp (Acro or Lonestar), giving effect to the Transactions (as defined herein) as if they had occurred on October 1, 2011. The unaudited pro forma condensed combined balance sheet as of June 30, 2013 combines the historical consolidated balance sheets of IES and MISCOR, giving effect to the Transactions (except the February 15, 2013 acquisition of certain Acro assets) as if they had occurred on June 30, 2013. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give pro forma effect to events that are (1) directly attributable to the Transactions, (2) factually supportable, and (3) with respect to the statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the:

- Separate historical financial statements of IES for the year ended September 30, 2012, which are included herein;
- Separate historical financial statements of MISCOR for the period ended September 30, 2012, which are not included herein;
- Separate historical financial statements of IES for the period ended June 30, 2013, which are included herein;
- Separate historical financial statements of MISCOR for the year ended December 31, 2012, which are included herein;
- Separate historical financial statements of MISCOR for the period ended June 30, 2013, which are included herein; and
- Separate historical financial statements of Acro for the year ended December 31, 2012 which are included herein.

IES fiscal year end is September 30, 2012, whereas MISCOR s and Acro s fiscal year ends are December 31, 2012. In order to calculate the historical results for MISCOR and Acro in the unaudited pro forma condensed combined statements of income for the nine months ended June 30, 2013, we have deducted the nine months ended September 30, 2012 from the twelve months ended December 31, 2012 and added this to the six months ended June 30, 2013. For the year ended September 30, 2012, we have added the nine months ended September 30, 2012 to the three months ended December 31, 2011.

The unaudited pro forma condensed combined statements of operations are presented on a standalone and combined basis.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The unaudited pro forma condensed combined information is not necessarily indicative of what the combined company s financial position or results of operations actually would have been had the Transactions been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under U.S. generally accepted accounting principles, and the applicable regulations of the SEC. All material transactions between IES and Acro during the periods presented in the unaudited pro forma

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condensed combined financial statements have been eliminated. There were no transactions between IES and MISCOR for elimination purposes. IES has been treated as the acquirer in the Transactions for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing this unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting will occur, and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company s future results of operations and financial position.

The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger, the costs to integrate the operations of IES, MISCOR and the Acro assets, or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET

As of June 30, 2013

(In thousands)

	IES	MISCOR	Pro Forma Adjustments (Note 5)	Pro Forma Combined
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 15,134	$	$ 10,000[(e)]	$ 14,094
			(11,040)[(Note 3)]	
Restricted cash	7,052			7,052
Accounts receivable:				
Trade	67,547	5,596		73,143
Retainage	18,525			18,525
Inventories	12,280	6,193		18,473
Costs and estimated earnings in excess of billings on uncompleted contracts	6,517			6,517
Assets held for sale	900			900
Prepaid expenses and other current assets	3,474	853		4,327
Total current assets	131,429	12,642	(1,040)	143,031
LONG-TERM RECEIVABLE, net	203			203
PROPERTY AND EQUIPMENT, net	5,433	4,667	1,997[(d)]	12,097
GOODWILL	8,631		6,421[(Note 4)]	15,052
INTANGIBLE ASSETS, net	561	6,076	(1,976)[(c)]	4,661
OTHER NON-CURRENT ASSETS, net	5,216	2,009	(149)[(Note 4)]	7,176
			100[(e)]	
Total assets	$ 151,473	$ 25,394	$ 5,353	$ 182,220
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Current maturities of long-term debt	$ 3,198	$ 4,024	$ (4,024)[(a)]	$ 5,698
			2,500[(e)]	
Accounts payable and accrued expenses	65,530	4,754	660[(c)]	71,976
			100[(e)]	
			932[(g)]	
Billings in excess of costs and estimated earnings on uncompleted contracts	22,133			22,133
Total current liabilities	90,861	8,778	168	99,807
LONG-TERM DEBT	1,667	1,761	7,500[(e)]	9,167
			(1,761)[(a)]	
LONG-TERM DEFERRED TAX LIABILITY	285		2,273[(Note 4)]	2,558
OTHER NON-CURRENT LIABILITIES	6,617			6,617
Total liabilities	99,430	10,539	8,180	118,149
STOCKHOLDERS EQUITY:				
Preferred stock				
Common stock	154	59,346	(59,346)[(a)]	180

			26(Note 3)	
Treasury stock, at cost	(2,839)	(74)	74(a)	(2,839)
Additional paid-in capital	162,763		12,934(Note 3)	175,697
Accumulated other comprehensive income	19			19
Retained deficit	(108,054)	(44,417)	(932)(g)	(108,986)
			44,417(a)	
Total stockholders equity	52,043	14,855	(2,827)	64,071
Total liabilities and stockholders equity	$ 151,473	$ 25,394	$ 5,353	$ 182,220

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

MISCOR Transaction

For the nine months ended June 30, 2013

(In thousands, except share and per share amounts)

	IES	MISCOR	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 370,810	$ 35,436	$	$ 406,246
Cost of services	321,182	27,655	(822)[d]	348,630
			615[d]	
Gross profit	49,628	7,781	207	57,616
Selling, general and administrative expenses	48,104	7,181	(359)[c]	53,130
			195[c]	
			(105)[d]	
			66[d]	
			(1,952)[g]	
Gain on sale of assets	(56)			(56)
Income (loss) from operations	1,580	600	2,362	4,542
Interest and other (income) expense				
Interest expense	1,425	291	(291)[e]	1,821
			396[e]	
Interest income	(123)			(123)
Other (income) expense, net	1,048	39		1,087
Interest and other expense, net	2,350	330	105	2,785
(Loss) income from operations before income taxes	(770)	270	2,257	1,757
Provision (benefit) for income taxes	264	(1,855)	1,917[f]	326
Net (loss) income from continuing operations	$ (1,034)	$ 2,125	$ 340	$ 1,431
Earnings (loss) per share from continuing operations				
Basic	$ (0.07)			$ 0.08
Diluted	$ (0.07)			$ 0.08
Shares used in the computation of earnings (loss) per share				
Basic	14,882,687		2,634,146[Note 3]	17,516,833
Diluted	14,882,687		2,634,146[Note 3]	17,592,805[h]

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the nine months ended June 30, 2013

Acro Transaction

(In thousands, except share and per share amounts)

	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 370,810	$ 4,186	$ (878)[(b)]	$ 374,118
Cost of services	321,182	2,734	(878)[(b)]	323,038
Gross profit	49,628	1,452		51,080
Selling, general and administrative expenses	48,104	2,885	62[(c)]	50,794
			(257)[(g)]	
Gain on sale of assets	(56)			(56)
Income (loss) from operations	1,580	(1,433)	195	342
Interest and other (income) expense				
Interest expense	1,425	696	(696)[(e)]	1,425
Interest income	(123)			(123)
Other (income) expense, net	1,048	1,126		2,174
Interest and other expense, net	2,350	1,822	(696)	3,476
(Loss) income from operations before income taxes	(770)	(3,255)	891	(3,134)
Provision (benefit) for income taxes	264		(26)[(f)]	238
Net (loss) income from continuing operations	$ (1,034)	$ (3,255)	$ 917	$ (3,372)
Earnings (loss) per share from continuing operations				
Basic	$ (0.07)			$ (0.23)
Diluted	$ (0.07)			$ (0.23)
Shares used in the computation of earnings (loss) per share				
Basic	14,882,687			14,882,687
Diluted	14,882,687			14,882,687

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the nine months ended June 30, 2013

Combined

(In thousands, except share and per share amounts)

	IES	MISCOR	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 370,810	$ 35,436	$ 4,186	$ (878)[b]	$ 409,554
Cost of services	321,182	27,655	2,734	(878)[b]	350,486
				(822)[d]	
				615[d]	
Gross profit	49,628	7,781	1,452	207	59,068
Selling, general and administrative expenses	48,104	7,181	2,885	(359)[c]	55,820
				257[c]	
				(105)[d]	
				66[d]	
				(2,209)[g]	
Gain on sale of assets	(56)				(56)
Income (loss) from operations	1,580	600	(1,433)	2,557	3,304
Interest and other (income) expense					
Interest expense	1,425	291	696	(987)[e]	1,821
				396[e]	
Interest income	(123)				(123)
Other (income) expense, net	1,048	39	1,126		2,213
Interest and other expense, net	2,350	330	1,822	(591)	3,911
(Loss) income from operations before income	(770)	270	(3,255)	3,148	(607)
Provision (benefit) for income taxes	264	(1,855)		1,891[f]	300
Net (loss) income from continuing operations	$ (1,034)	$ 2,125	$ (3,255)	$ 1,257	$ (907)
Earnings (loss) per share from continuing operations					
Basic	$ (0.07)				$ (0.05)
Diluted	$ (0.07)				$ (0.05)
Shares used in the computation of earnings (loss) per share					
Basic	14,882,687			2,634,146[Note3]	17,516,833
Diluted	14,882,687			2,634,146[Note3]	17,516,833

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the year ended September 30, 2012

MISCOR Transaction

(In thousands, except share and per share amounts)

	IES	MISCOR	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 456,115	$ 48,983	$	$ 505,098
Cost of services	398,063	37,495	(1,449)(d)	434,930
			821(d)	
Gross profit	58,052	11,488	628	70,168
Selling, general and administrative expenses	58,609	8,963	(422)(c)	67,347
			260(c)	
			(150)(d)	
			87(d)	
Gain on sale of assets	(168)			(168)
Income (loss) from operations	(389)	2,525	853	2,989
Interest and other (income) expense				
Interest expense	2,324	787	(787)(e)	2,852
			528(e)	
Interest (income)	(34)			(34)
Other (income), net	(62)	(162)		(224)
Interest and other expense (income), net	2,228	625	(259)	2,594
Income (loss) from operations before income taxes	(2,617)	1,900	1,112	395
Provision (benefit) for income taxes	38		(f)	38
Net (loss) income from continuing operations	$ (2,655)	$ 1,900	$ 1,112	$ 357
Earnings (loss) per share from continuing operations				
Basic	$ (0.18)			$ 0.02
Diluted	$ (0.18)			$ 0.02
Shares used in the computation of earnings (loss) per share				
Basic	14,625,776		2,634,146(Note3)	17,259,922
Diluted	14,625,776		2,634,146(Note3)	17,381,797(h)

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the year ended September 30, 2012

Acro Transaction

(In thousands, except share and per share amounts)

	IES	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 456,115	$ 14,824	$(8,596)[b]	$ 462,343
Cost of services	398,063	10,019	(8,596)[b]	399,486
Gross profit	58,052	4,805		62,857
Selling, general and administrative expenses	58,609	8,462	147[c]	67,218
Impairment/(Gain) on sale of assets	(168)	1,297		1,129
Income (loss) from operations	(389)	(4,954)	(147)	(5,490)
Interest and other (income) expense				
Interest expense	2,324	400	(400)[e]	2,324
Interest (income)	(34)	(126)		(160)
Other (income), net	(62)	(524)		(586)
Interest and other expense (income), net	2,228	(250)	(400)	1,578
Income (loss) from operations before income taxes	(2,617)	(4,704)	253	(7,068)
Provision (benefit) for income taxes	38	1	[f]	39
Net (loss) income from continuing operations	$ (2,655)	$ (4,705)	$ 253	$ (7,107)
Earnings (loss) per share from continuing operations				
Basic	$ (0.18)			$ (0.49)
Diluted	$ (0.18)			$ (0.49)
Shares used in the computation of earnings (loss) per share				
Basic	14,625,776			14,625,776
Diluted	14,625,776			14,625,776

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the year ended September 30, 2012

Combined

(In thousands, except share and per share amounts)

	IES	MISCOR	Acro	Pro Forma Adjustments (Note 5)	Pro Forma Combined
Revenues	$ 456,115	$ 48,983	$ 14,824	$ (8,596)[(b)]	$ 511,326
Cost of services	398,063	37,495	10,019	(8,596)[(b)]	436,353
				(1,449)[(d)]	
				821[(d)]	
Gross profit	58,052	11,488	4,805	628	74,973
Selling, general and administrative expenses	58,609	8,963	8,462	(422)[(c)]	75,956
				407[(c)]	
				(150)[(d)]	
				87[(d)]	
Impairment/(Gain) on sale of assets	(168)		1,297		1,129
Income (loss) from operations	(389)	2,525	(4,954)	706	(2,112)
Interest and other (income) expense					
Interest expense	2,324	787	400	(1,187)[(e)]	2,852
				528[(e)]	
Interest (income)	(34)		(126)		(160)
Other (income), net	(62)	(162)	(524)		(748)
Interest and other expense (income), net	2,228	625	(250)	(659)	1,944
Income (loss) from operations before income taxes	(2,617)	1,900	(4,704)	1,365	(4,056)
Provision (benefit) for income taxes	38		1	[(f)]	39
Net (loss) income from continuing operations	$ (2,655)	$ 1,900	$ (4,705)	$ 1,365	$ (4,095)
Earnings (loss) per share from continuing operations					
Basic	$ (0.18)				$ (0.24)
Diluted	$ (0.18)				$ (0.24)
Shares used in the computation of earnings (loss) per share					
Basic	14,625,776			2,634,146[(Note3)]	17,259,922
Diluted	14,625,776			2,634,146[(Note3)]	17,259,922

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Unaudited Pro Forma Condensed Combined Financial Statements

(All Dollar Amounts in Thousands Except Per Share Amounts)

Note 1: Description of Transactions

MISCOR

On March 13, 2013, IES and MISCOR entered into a definitive merger agreement pursuant to which, subject to the terms and conditions set forth in the agreement and discussed below, MISCOR will merge with and into IES Subsidiary Holdings, Inc., a wholly-owned subsidiary of IES (Merger Sub), with Merger Sub surviving the merger as the surviving corporation, a wholly-owned subsidiary of IES (the MISCOR Transaction). At the effective time of the merger, all outstanding MISCOR restricted stock will immediately vest into MISCOR common stock, and IES will issue, subject to the terms of the merger agreement, at the election of each MISCOR shareholder, shares of IES common stock or cash for each share of MISCOR common stock issued and outstanding (including shares of MISCOR common stock issued upon exercise of MISCOR options and warrants, if any), subject to the Maximum Cash Amount (as described in Note 3 to these unaudited pro forma condensed combined financial statements). At the time of this filing, it is expected by IES management that MISCOR shareholders holding approximately 75% of MISCOR s issued and outstanding common stock (as of the Merger Consideration Determination Date, as defined below) will elect to receive shares of IES common stock in the merger and that MISCOR shareholders holding approximately 25% of MISCOR s issued and outstanding common stock (as of such date) will elect to receive cash consideration. See Note 3 to these unaudited pro forma condensed combined financial statements for a discussion of the facts underlying this assumption.

Based on the assumptions described in Note 3 to these unaudited pro forma condensed combined financial statements, which assumptions will not be definitively determined until the fifteenth business day prior to the closing date of the merger (the Merger Consideration Determination Date), each MISCOR shareholder will have the right to receive, subject to the terms of the merger agreement, at his or her election, either $1.47 in cash or 0.298 shares of IES common stock for each share of MISCOR common stock issued and outstanding, subject to the sensitivity assumptions set forth herein. See Note 3 to these unaudited pro forma condensed combined financial statements for further discussion of these assumptions and a sensitivity analysis related to the potential consideration that may be received by MISCOR shareholders.

Acro

On February 8, 2013, IES Renewable Energy, LLC (IES Renewable), an indirect wholly-owned subsidiary of IES, entered into an asset purchase agreement with a group of entities operating under the name of the Acro Group: Residential Renewable Technologies, Inc., Energy Efficiency Solar, Inc. and Lonestar Renewable Technologies Acquisition Corp. (collectively, the Acro Group). Pursuant to the terms of the asset purchase agreement, IES agreed to acquire certain assets (the Acquired Assets) in connection with the Acro Group s turn-key residential solar integration business (the Acro Transaction). The Acquired Assets include, but are not limited to, assets relating to the Acro Group s solar installation sales and marketing platform and the backlog of contracts entered into by the Acro Group with residential solar customers, which provide for the payment of sales and marketing fees in connection with the sale, installation and third-party financing of residential solar equipment. The transaction closed on February 15, 2013 (the Closing Date).

Following consummation of the transaction, IES Residential, Inc. (IES Residential), a wholly-owned subsidiary of IES, began offering full-service residential solar integration services, including design, procurement, permitting, installation, financing services through third parties and warranty services for residential customers. IES Residential had previously provided solar installation subcontracting services to the Acro Group, and as of February 8, 2013, was owed $3,800 for subcontracting services provided up to that date (such balance, as of the day prior to the Closing Date, the Accounts Receivable Balance).

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Total consideration received by the Acro Group for the Acquired Assets consists of (i) IES Residential s release of the Accounts Receivable Balance, (ii) payment by IES Renewable to the Acro Group of a percentage of future gross revenue generated from the Acquired Assets in an amount not to exceed $2,000 over the 12-month period beginning the first full month following the Closing Date, subject to certain reductions as described in the asset purchase agreement, and (iii) $828 representing amounts paid by IES Residential, to the Acro Group to fund certain of its operating expenses between January 4, 2013 and the Closing Date.

On February 21, 2013, an affiliate of the Acro Group, Acro Energy Technologies, Inc. (the Debtor), filed a petition under Chapter 7 of the United States Code with the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the bankruptcy case). The Debtor was not party to the asset purchase agreement or otherwise involved in the Acro asset transaction. As such, the bankruptcy case is not anticipated to have an impact on the asset purchase agreement, the transactions contemplated thereunder or the Acquired Assets.

According to Note 5 to the Consolidated Financial Statements of Lonestar Renewable Technologies Corp. (referred to herein as Acro or Lonestar) for the years ended December 31, 2012 and 2011, on May 13, 2011, Lonestar granted collateral security on all of its assets and the assets of two of its subsidiaries to four individuals (the Secured Parties) who had advanced sums and other financial accommodations to Lonestar. Thereafter, on June 19, 2012, the Secured Parties assigned their collateral security rights to Residential Renewable Technologies, Inc. (Residential), and Lonestar assigned all of its assets to Residential, which agreed to lease the assets to Energy Efficiency Solar, Inc., a subsidiary of Lonestar, for a monthly lease payment of $1.00.

The financial statements of Lonestar for the year ending December 31, 2012 do not appear to reflect the transfer of assets to Residential. The assets and operations acquired by IES are fully included in the financial statements of Lonestar, thus precluding the necessity to include the financial statements of Residential. Residential is a party to the asset purchase agreement because it owned certain assets acquired by IES.

Both the MISCOR Transaction and the Acro Transaction are significant and, as such, are presented separately in the unaudited pro forma condensed combined financial statements. The combination of the MISCOR Transaction and the Acro Transaction is referred to as the Transactions in the notes to these unaudited pro forma condensed combined financial statements.

Note 2: Basis of Presentation

The Transactions are reflected in the unaudited pro forma condensed combined financial statements as being accounted for under the acquisition method of accounting. Under the acquisition method, the total estimated purchase price for the MISCOR Transaction as described in Note 3 will be measured at the closing date of the MISCOR Transaction using the quoted market price of IES common stock at that time, which may be different from the VWAP as defined and discussed further in Note 3. Therefore, this may result in a per-share equity value that is different from that assumed for purposes of preparing these unaudited pro forma condensed combined financial statements. The assets and liabilities of MISCOR and Acro have been measured at fair value based on various preliminary estimates using assumptions that IES management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. There are limitations on the type of information that can be exchanged between MISCOR and IES at this time. Until the MISCOR acquisition is complete, IES will not have complete access to all relevant information.

The process for estimating the fair values of identifiable intangible assets and certain tangible assets requires the use of significant estimates and assumptions, including estimating future cash flows. The excess of the estimated purchase consideration over the estimated amounts of identifiable assets and liabilities of MISCOR and Acro as of the effective dates of the Transactions have been allocated to Goodwill. The purchase price allocation is subject to finalization of IES analysis of the fair value of the assets and liabilities of MISCOR and Acro as of

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the effective dates of the Transactions. Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuations. Such adjustments could be material.

In accordance with the SEC s rules and regulations, the unaudited pro forma condensed combined financial statements do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the Transactions or the costs to integrate the operations of IES, MISCOR and Acro or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

IES is performing a detailed review of MISCOR s accounting policies. As a result of this review, IES may identify differences between the accounting policies that, when conformed, could have a material impact on the consolidated financial statements of the combined company.

Certain reclassifications have been made to the historical presentation of MISCOR and Acro to conform to the presentation used in the unaudited pro forma condensed combined financial statements. Upon consummation of the MISCOR Transaction, further review of MISCOR s financial statements may result in additional revisions to MISCOR s classifications to conform to IES presentation.

Note 3: Estimate of Consideration Expected to be Transferred

MISCOR

The following is a preliminary estimate of the consideration expected to be transferred to effect the acquisition of MISCOR. Pursuant to the merger agreement, the aggregate cash consideration to be paid in connection with the merger shall not exceed a threshold (the Maximum Cash Amount) equal to the product obtained by multiplying (x) the per share cash consideration by (y) 50% of the number of shares of MISCOR common stock outstanding immediately prior to the effective time of the merger. The Maximum Cash Amount will be equal to approximately 50% of the total consideration received by MISCOR shareholders in the merger.

One of the variables incorporated in the unaudited pro forma financial statements for the MISCOR Transaction is the assumption of IES management that MISCOR shareholders holding approximately 75% of MISCOR s issued and outstanding common stock (as of the Merger Consideration Determination Date) will elect to receive shares of IES common stock in the merger and that MISCOR shareholders holding approximately 25% of MISCOR s issued and outstanding common stock (as of such date) will elect to receive cash consideration. This is IES management s best estimate at this time, which is based, in part, on the expectation that Tontine will elect to receive stock consideration for 100% of its MISCOR common stock (or 49.9% of MISCOR s outstanding common stock as of August 8, 2013) and John Martell will elect to receive stock consideration for between 18.3% and 54.8% of his MISCOR common stock (or between 4.2% and 12.7% of MISCOR s outstanding common stock as of August 8, 2013).

Mr. Martell and representatives of Tontine have each engaged in non-binding discussions with representatives of MISCOR and IES regarding their intentions to elect to receive sufficient stock consideration in the merger to avoid triggering the Maximum Cash Amount and, thereby, limiting the cash consideration available to unaffiliated MISCOR shareholders in the merger.

Tontine has indicated that it intends to take stock consideration for 100% of its MISCOR common stock, subject to the exercise of fiduciary duties in the management of its funds and other factors. Similarly, Mr. Martell has indicated that he intends to exchange at least 500,000 shares and up to 1,500,000 shares of MISCOR common stock for IES common stock (or between 18.3% and 54.8% of his shares of MISCOR common stock as of August 8, 2013), depending on certain factors and considerations. Based on these non-binding indications, IES management anticipates (as described above) that, at a minimum, 54% of the MISCOR common stock outstanding as of August 8, 2013 will elect to receive stock consideration in the merger.

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The table below shows the sensitivity of using the floor, which assumes a 50% split between cash consideration and stock consideration, and the ceiling, which assumes 100% stock consideration.

	Sensitivity Assumptions:		
	50% Stock 50% Cash	75% Stock 25% Cash	100% Stock
Total estimate of consideration expected to be transferred[b][e]	$ 24,000	$ 24,000	$ 24,000
Less: MISCOR debt balance at August 8, 2013[b][g]	$ 6,720	$ 6,720[f]	$ 6,720
Equals: Estimate of consideration after MISCOR debt balance	$ 17,280	$ $17,280	$ $17,280
Allocation to: Estimated cash consideration[b]	$ 8,640	$ 4,320[f]	$
Allocation to: IES common stock equity consideration[b][e]	$ 8,640	$ 12,960[h]	$ 17,280
Number of shares of MISCOR common stock (including shares of restricted stock) outstanding as of August 8, 2013	11,765,987	11,765,987	11,765,987
Plus: Number of MISCOR stock options outstanding as of August 8, 2013	1,000	1,000	1,000
Plus: Number of MISCOR warrants outstanding as of August 8, 2013	8,079	8,079	8,079
Equals: Total MISCOR equity units as of August 8, 2013[a]	11,775,066	11,775,066	11,775,066
MISCOR equity units electing to receive stock consideration[b]	5,887,533	8,831,300	11,775,066
Estimated cash consideration per share[i]	$ 1.47	$ 1.47	$ 1.47
IES common stock share price on August 8, 2013[b][d]	$ 4.92	$ 4.92	$ 4.92
IES shares expected to be issued as stock consideration[b]	1,756,098	2,634,146	3,512,195
Estimated exchange ratio[b][c]	0.298	0.298	0.298
Pro forma earnings per share for the year ended September 30, 2012 MISCOR only	$ 0.02	$ 0.02	$ 0.02
Pro forma earnings per share for the period ended June 30, 2013 MISCOR only	$ 0.08	$ 0.08	$ 0.08

(a) Assumes for purposes of these unaudited pro forma condensed combined financial statements that the total number of MISCOR equity units outstanding as of August 8, 2013 is reflective of the total number of MISCOR equity units that will be outstanding as of the Merger Consideration Determination Date.

(b) Actual amounts may vary from these estimates based on, among other factors, (i) the number of MISCOR equity units for which cash consideration is elected and the number of MISCOR equity units for which stock consideration is elected, (ii) the volume-weighted average of the sale prices per share of IES common stock for the 60 consecutive trading days ending on the Merger Consideration Determination Date (the IES Common Stock Value), (iii) if the IES Common Stock Value is greater than $6.036 per share or less than $4.024 per share (the VWAP Collar) on the Consideration Determination Date, (iv) the market price of IES common stock on the closing date, (v) fluctuations in MISCOR s Net Debt prior to the Merger Consideration Determination Date, and (vi) the number of MISCOR stock options and warrants actually exercised. See sensitivity disclosures below.

(c) Estimated exchange ratio equal to (x) the estimated cash consideration of $1.47 per share (see footnote (i) below), divided by (y) the closing price of IES common stock, as reported on the NASDAQ Global Market System on August 8, 2013 (see footnote (d) below).

(d) Assumes for purposes of these unaudited pro forma condensed combined financial statements that the closing price of IES common stock, as reported on the NASDAQ Global Market System on August 8, 2013, of $4.92 per share may better reflect the anticipated VWAP of IES common stock for the 60-day period ending on the Merger Consideration Determination Date than the VWAP of IES common stock for the 60- day period ending on August 8, 2013 of $4.9230. Keeping all other factors unchanged, using the VWAP of IES common stock for the 60-day period ended on August 8, 2013, in lieu of the market price of IES common stock at August 8, 2013, in the calculation of estimated consideration set forth in the table above would not have a material impact on the overall consideration because the closing price of IES common

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stock on August 8, 2013 is approximately equal to the VWAP of IES common stock for the 60-day period ending on August 8, 2013.

(e) The estimated consideration expected to be transferred related to the MISCOR acquisition reflected in these unaudited pro forma condensed combined financial statements does not purport to represent what the actual consideration transferred will be when the transaction is completed. The fair value of the shares of IES common stock to be issued as part of the consideration transferred is required to be measured on the closing date of the transaction at the then-current market price of IES common stock. This requirement will likely result in a per-share equity component different from what has been assumed in these unaudited pro forma condensed combined financial statements and that difference may be material.

A $1.00 increase in the closing price per share for IES common stock, as reported on the NASDAQ Global Market system on August 8, 2013 (see footnote (d) above) would not have a material impact on the overall consideration because a market price of $5.92 per share would be within the VWAP Collar. A $1.00 decrease in the closing price per share for IES common stock, as reported on the NASDAQ Global Market system on August 8, 2013 would be below the VWAP floor of $4.024. This would result in approximately $335 in lower overall consideration which would be recorded against Goodwill. The total consideration for the MISCOR acquisition may be higher or lower than $24,000 as a result of the fluctuations in the factors described in footnote (b) above, including, specifically, if the IES Common Stock Value is outside of the VWAP Collar. Given that this information is not yet available to IES, these unaudited pro forma condensed combined financial statements assume that total consideration will be $24,000.

(f) Cash adjustment in unaudited pro forma condensed combined balance sheet is $11,040.

(g) Assumes for purposes of these unaudited pro forma condensed combined financial statements that MISCOR s total debt outstanding at August 8, 2013 of $6,720 may better reflect MISCOR s anticipated Net Debt as of the Merger Consideration Determination Date than MISCOR s Net Debt for the 30-day period ended as of August 8, 2013 of $6,261. Net Debt, as defined in the merger agreement, is a 30-day average of the sum of MISCOR s funded debt and other debt, not including ordinary trade payables. Keeping all other factors unchanged, using MISCOR s Net Debt for the 30-day period ended August 8, 2013, in lieu of MISCOR s total debt outstanding as of August 8, 2013, in the calculation of estimated consideration set forth in the table above would result in an increase in consideration after the MISCOR debt balance of approximately $460, which would be recorded as an increase to Goodwill in the unaudited pro forma condensed combined balance sheet.

(h) Allocation on the unaudited pro forma condensed combined balance sheet between Common Stock and APIC is $26 and $12,934, respectively, based on par value of $0.01.

(i) Estimated cash consideration per share equal to (x) the difference between $24,000 and MISCOR s debt balance as of August 8, 2013 (see footnote (g) above) divided by (y) the number of MISCOR equity units outstanding as of August 8, 2013 (see footnote (a) above).

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Note 4: Preliminary Purchase Price Allocation

The following is a preliminary estimate of the assets acquired and liabilities assumed by IES in the MISCOR acquisition, reconciled to the estimate of consideration expected to be transferred:

Estimate of consideration expected to be transferred (see Note 3)	$ 24,000
Book value of net assets (liabilities) acquired at June 30, 2013	$ 14,855
Plus: Debt at June 30, 2013 repaid in connection with the transaction	5,785
Equals: Adjusted book value of net assets acquired	20,640
Fair value and deferred tax adjustments to (see Note 5):	
Intangible assets[(c)]	(1,976)
Fixed assets[(d)]	1,997
Deferred tax assets[(f)]	(149)
Deferred tax liabilities[(f)]	(2,273)
Unfavorable leases[(c)]	(660)
Goodwill	6,421
Total fair value and deferred tax adjustments	3,360
Fair value of net assets acquired	$ 24,000

Note 5: Adjustments to Unaudited Pro Forma Condensed Combined Financial Statements

(a) Liabilities and Equity Not Acquired: Based on the terms of the MISCOR purchase agreement, MISCOR outstanding debt will be retired commensurate with the merger. The unaudited pro forma condensed combined financial statements have been adjusted to remove such debt as well as historical MISCOR equity at the respective historical carrying values.

(b) Intercompany Eliminations: Reflects the elimination of revenue and cost of services in connection with historical services provided by IES to Acro and related Acro cost for these services as if the entities were combined as of October 1, 2011 for the unaudited pro forma condensed combined statements of operations. There were no related transactions between IES and MISCOR for elimination purposes.

(c) Intangible Assets: The fair value of identifiable intangible assets is determined primarily using the income approach, which requires a forecast of all of the expected future cash flows either through the use of the relief-from-royalty method or the multi-period excess earnings method. Some of the more significant assumptions inherent in the development of intangible asset values include: the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, and the assessment of the asset s life cycle, as well as other factors. However, for purposes of these unaudited pro forma condensed combined financial statements, using certain high-level assumptions, the fair value of the identifiable intangible assets, the related amortization expense and their weighted-average useful lives have been estimated as follows:

					Amortization Expense	
	Carrying Value	Estimated Fair Value	Step Up (Down)	Weighted Average Estimated Useful Life	Year Ended September 30, 2012	Nine Months Ended June 30, 2013
MISCOR						
Trademarks	$	$ 1,200	$ 1,200	Indefinite	$	$
Technical library	505	400	(105)	20 Years	20	15
Customer relationships	5,571	2,500	(3,071)	6.8 Years	369	277

Unfavorable leases			(660)	(660)	5.1 Years	(129)	(97)
Total MISCOR, net[2]	$	6,076	$ 3,440	$ (2,636)		$ 260	$ 195

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	Carrying Value	Estimated Fair Value	Step Up (Down)	Weighted Average Estimated Useful Life	Amortization Expense Year Ended September 30, 2012	Amortization Expense Period Ended February 14, 2013
Acro						
Backlog	$	$ 350	$ 350	5 Months	$ (1)	$ (1)
Covenant not-to-compete		140	140	3 Years	47	23(3)
Developed technology		400	400	4 Years	100	50(3)
Total Acro, net(2)		890	890		147	73
Total MISCOR and Acro, net	$ 6,181	$ 4,330	$ (1,851)		$ 407	$ 203(3)

(1) Note that subsequent amortization of the new backlog intangible asset recorded at fair value is expected to be less than 12 months. As this does not have a continuing impact, the unaudited pro forma condensed combined statements of operations do not include this amortization expense.

(2) MISCOR fair value adjustments, excluding unfavorable leases, is $(1,976).

(3) Note that amortization expense of $11 was recorded subsequent to the acquisition of Acro. This amount was excluded from the as calculated pro forma interest expense for the period.

Historical MISCOR amortization of $359 and $422 for the nine months ended June 30, 2013 and the year ended September 30, 2012, respectively, is derecognized in the unaudited pro forma statements of operations.

These preliminary estimates of fair value and estimated useful life will likely be different from the final acquisition accounting, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements. Once IES has full access to the specifics of MISCOR s intangible assets, additional insight will be gained that could impact: (i) the estimated total value assigned to intangible assets and (ii) the estimated weighted average useful life of each category of intangible assets. The estimated intangible asset values and their useful lives could be impacted by a variety of factors that may become known to IES only upon access to the additional information and/or changes in such factors that may occur prior to the effective time of the transaction.

(d) Fixed Assets: For purposes of these unaudited pro forma condensed combined financial statements, IES has estimated the fair values of MISCOR fixed assets set forth below. This estimate of fair value is preliminary and subject to change once IES has sufficient information as to the specific types, nature, age, condition and location of MISCOR fixed assets. The below table calculates the MISCOR step up adjustment and related depreciation expense recorded in the accompanying unaudited pro forma condensed combined financial statements:

	Carrying Value	Estimated Fair Value	Step Up (Down)	Remaining Useful Life (in years)	Depreciation Expense Year Ended September 30, 2012	Depreciation Expense Nine Months Ended June 30, 2013
MISCOR						
Land	$ 250	$ 250	$	N/A	$ N/A	$ N/A
Buildings	1,319	1,550	231	20	78	58
Leasehold improvements	280	301	21	3	100	75
Machinery and equipment	2,528	2,778	250	7	397	298
Construction in process(1)	110	308	198	N/A	(1)	(1)
Vehicles		46	46	3	15	12
Office & computer equipment	180	1,431	1,251	4.5	318	238
Total MISCOR	**$ 4,667**	**$ 6,664**	**$ 1,997**		**$ 908**	**$ 681**
Allocated to cost of services					821	615
Allocated to SG&A					87	66

(1) Carrying value expected to approximate fair value for construction in process and is not depreciated consistent with IES accounting policies.

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Historical MISCOR depreciation of $927 ($822 cost of services and $105 selling, general and administrative) and $1,599 ($1,449 cost of services and $150 selling, general and administrative) for the nine months ended June 30, 2013 and the year ended September 30, 2012, respectively, was derecognized in the unaudited pro forma condensed combined statements of operations.

(e) Debt and Interest: Based on the terms of the asset purchase agreement with Acro, none of the historical Acro debt was assumed by IES in the transaction. As such, there is an adjustment in the unaudited pro forma condensed combined statements of operations to remove the interest related to this debt as it will not have a continuing impact.

Based on the terms of the definitive merger agreement, the MISCOR debt will be assumed in the transaction by IES. Simultaneous with the closing of the MISCOR Transaction, IES expects to refinance the assumed debt with a new $10,000 fixed rate term loan with Wells Fargo which is expected to bear interest at 5.03% per annum. Approximately $2,500 is due within the first year and $7,500 thereafter. Debt issue costs are estimated at $100, which are expected to be amortized over approximately 4 years. To reflect this refinancing and the related deal terms, there is an adjustment to remove the historical debt and related interest expense in the unaudited pro forma condensed combined financial statements. A summary of the pro forma adjustment to interest expense is as follows:

Year Ended September 30, 2012	MISCOR	Acro	Total
Annual interest expense on new term loan	$ 503	$	$ 503
Annual amortization of debt issue costs	25		25
Total annual pro forma interest expense	528		528
Historical annual interest expense	787	400	1,187
Net pro forma adjustment to interest expense	$ 259	$ 400	$ 659

Nine Months Ended June 30, 2013	MISCOR	Acro	Total
Pro forma interest expense on new term loan	$ 377	$	$ 377
Annual amortization of debt issue costs	19		19
Total pro forma interest expense	396		396
Less: Historical interest expense	291	696	987
Net pro forma adjustment to interest expense	$ 105	$ (696)	$ (591)

(f) Deferred taxes:

In assessing the recovery of net operating loss carryforwards, IES considers whether it is more likely than not that some portion or all of net operating loss carryforwards will be realized. The realization of net operating loss carryforwards is dependent upon the generation of taxable income during the periods the net operating loss carryforwards may be utilized. In assessing the likelihood of future taxable income, considerably more weight is placed upon historical results and less weight on future projections when there is negative evidence such as cumulative pretax loss in recent years. IES believes the future benefits of the Transactions are not of sufficient weight to offset the historical cumulative pretax loss generated by IES. Accordingly, IES has provided a valuation allowance for the net operating loss carryforward resulting from the pretax loss for year ended September 30, 2012. The effect of the net operating loss carryfoward results in actual income tax expense from the pro forma adjustment differing from income tax expense computed by applying the statutory corporate tax rate. No income tax expense or benefit was recorded in the unaudited pro forma condensed combined statement of operations for the year ended September 30, 2012 as a result of the pro forma adjustments.

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For the nine month period ended June 30, 2013, MISCOR recognized an income tax benefit of $1,942 related to reducing a valuation allowance for the utilization of future net operating loss carryforwards. IES believes on a combined basis it is not more likely than not that this is recoverable and has provided for $1,942 pro forma adjustment to reverse the income tax benefit of the valuation allowance adjustment. Additionally, IES recorded a $51 income tax benefit due to the effect of the pro forma adjustment resulting in a net pro forma income tax provision adjustment of $1,891. A net pro forma income tax provision of $1,917 is applicable to MISCOR and a net pro forma income tax benefit of $26 is applicable to Acro. The net operating loss carryfoward results in actual income tax expense form the pro forma adjustment differing from income tax expense computed by applying the statutory corporate tax rate.

MISCOR

A summary of MISCOR deferred tax assets and deferred tax liabilities is as follows (in thousands):

	Deferred Tax Assets	Valuation Allowance	Deferred Tax Liabilities	Total
Historical MISCOR balances as of June 30, 2013	$ 11,035	$ (9,093)	$	$ 1,942
Pro forma Adjustments:				
To confirm MISCOR presentation to IES	837		(837)	
Revaluation of trademarks			(480)	(480)
Revaluation of customer relationships and technical library	1,350			1,350
Recharacterization of goodwill as non-deductible	(1,949)			(1,949)
Revaluation of property and equipment			(692)	(692)
Unfavorable operating leases			(264)	(264)
Adjust Valuation Allowance		(387)		(387)
Total pro forma adjustments	238[1]	(387)[1]	(2,273)	(2,422)
Pro forma deferred taxed related to MISCOR	$ 11,273	$ (9,480)	$ (2,273)	$ (480)

(1) Net adjustment is $149 as shown in Note 4.

A valuation allowance of $9,480 is provided for the deferred tax assets. IES believes $1,793 of deferred tax assets will be offset by deferred tax liabilities. The remaining deferred tax liability of $480 is related to an indefinite lived intangible asset. For purposes of these unaudited pro forma condensed combined financial statements, deferred tax assets are provided at the 35% U.S. federal statutory income tax rate and 5% state blended income tax rate.

Acro

Since the Acro Transaction was taxable, no deferred taxes were recorded as the tax bases and financial reporting bases are revalued in the same manner.

(g) Reflects an estimate of the future costs of $932 directly attributable to the Transactions, including advisory and legal fees that are recorded as an adjustment to the unaudited pro forma condensed combined balance sheet only. These amounts will be expensed as incurred in the future and are not reflected in the unaudited pro forma condensed combined statement of operations because they have not yet been incurred for accompanying periods presented and they will not have a continuing impact. We incurred expenses of $2,209 in the period ended June 30, 2013, which is the amount of direct, incremental costs for the MISCOR and Acro transactions recorded in these historical financial statements. Of these amounts incurred, $1,952 related to the MISCOR Transaction, while $257 related to the Acro Transaction. There were no such expenditures incurred in the year ended September 30, 2012. For pro forma purposes, these expenditures have been removed from the unaudited pro forma condensed combined statements of operations as they will not have a continuing impact.

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(h) For the nine months ended June 30, 2013 and the year ended September 30, 2012, for the MISCOR transaction, IES on a pro forma basis has income from continuing operations. Therefore, 14,958,659 and 14,747,651 shares are the diluted number of shares, respectively, before issuing 2,634,146 pro forma shares in connection with the transaction, which in total, equal 17,592,805 and 17,381,797 shares, respectively.

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INTEGRATED ELECTRICAL SERVICES, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of

Integrated Electrical Services, Inc.

We have audited the accompanying consolidated balance sheets of Integrated Electrical Services, Inc. and subsidiaries (the Company) as of September 30, 2012 and 2011, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended September 30, 2012. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated Electrical Services, Inc. and subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Houston, Texas

December 14, 2012

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands, Except Share Information)

	Years Ended September 30, 2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,729	$ 35,577
Restricted cash	7,155	
Accounts receivable:		
Trade, net of allowance of $1,788 and $2,704, respectively	76,259	85,728
Retainage	17,004	17,944
Inventories	15,141	8,443
Costs and estimated earnings in excess of billings on uncompleted contracts	8,180	9,963
Assets held for sale	1,110	
Prepaid expenses and other current assets	3,807	2,840
Total current assets	147,385	160,495
LONG-TERM RECEIVABLE, net of allowance of $0 and $59, respectively	259	200
PROPERTY AND EQUIPMENT, net	6,480	8,016
GOODWILL	4,446	4,446
OTHER NON-CURRENT ASSETS, net	6,143	7,087
Total assets	$ 164,713	$ 180,244
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 10,456	$ 209
Accounts payable and accrued expenses	68,673	78,980
Billings in excess of costs and estimated earnings on uncompleted contracts	25,255	19,585
Total current liabilities	104,384	98,774
LONG-TERM DEBT, net of current maturities	24	10,289
LONG-TERM DEFERRED TAX LIABILITY	285	284
OTHER NON-CURRENT LIABILITIES	6,863	6,596
Total liabilities	111,556	115,943
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 14,977,400 and 14,956,473 outstanding, respectively	154	154
Treasury stock, at cost, 430,402 and 451,329 shares, respectively	(4,546)	(5,595)
Additional paid-in capital	163,871	164,262
Retained deficit	(106,322)	(94,520)
Total stockholders equity	53,157	64,301

Total liabilities and stockholders equity	$ 164,713	$ 180,244

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 Operations

(In Thousands, Except Share Information)

	Years Ended September 30,		
	2012	2011	2010
Revenues	$ 456,115	$ 406,141	$ 382,431
Cost of services	398,063	361,757	326,939
Gross profit	58,052	44,384	55,492
Selling, general and administrative expenses	58,609	63,321	74,251
Gain on sale of assets	(168)	(6,555)	(128)
Asset impairment		4,804	
Restructuring charges			763
Loss from operations	(389)	(17,186)	(19,394)
Interest and other (income) expense:			
Interest expense	2,324	2,278	3,513
Interest income	(34)	(68)	(242)
Other income, net	(62)	(7)	(18)
Interest and other expense, net	2,228	2,203	3,253
Loss from operations before income taxes	(2,617)	(19,389)	(22,647)
Provision (benefit) for income taxes	38	172	(36)
Net loss from continuing operations	$ (2,655)	$ (19,561)	$ (22,611)
Discontinued operations (Note 17)			
Loss from discontinued operations	(9,158)	(18,288)	(8,539)
(Benefit) provision for income taxes	(11)	(26)	5
Net loss from discontinued operations	(9,147)	(18,262)	(8,544)
Net loss	$ (11,802)	$ (37,823)	$ (31,155)
Loss per share:			
Continuing operations	$ (0.18)	$ (1.35)	$ (1.57)
Discontinued operations	$ (0.63)	$ (1.26)	$ (0.59)
Basic	$ (0.81)	$ (2.61)	$ (2.16)
Diluted loss per share:			
Continuing operations	$ (0.18)	$ (1.35)	$ (1.57)
Discontinued operations	$ (0.63)	$ (1.26)	$ (0.59)
Diluted	$ (0.81)	$ (2.61)	$ (2.16)

Shares used in the computation of loss per share			
Basic	14,625,776	14,493,747	14,409,368
Diluted	14,625,776	14,493,747	14,409,368

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 Stockholders Equity

(In Thousands, Except Share Information)

	Common Stock		Treasury Stock			Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount	APIC			
BALANCE, September 30, 2009	15,407,802	$ 154	(790,061)	$ (14,097)	$ 170,732	$ (70)	$ (25,542)	$ 131,177
Restricted stock grant			221,486	807	(807)			
Forfeiture of restricted stock			(38,000)	(217)	217			
Acquisition of treasury stock			(27,323)	(170)	(2)			(172)
Non-cash compensation					1,370			1,370
Unrealized loss on marketable securities, net of tax						(18)		(18)
Net loss							(31,155)	(31,155)
BALANCE, September 30, 2010	15,407,802	$ 154	(633,898)	$ (13,677)	$ 171,510	$ (88)	$ (56,697)	$ 101,202
Restricted stock grant			333,616	4,595	(4,595)			
Forfeiture of restricted stock			(130,258)	(450)	450			
Acquisition of treasury stock			(20,789)	3,937	(4,009)			(72)
Non-cash compensation					907			907
Unrealized loss on marketable securities, net of tax						88		88
Net loss							(37,823)	(37,823)
BALANCE, September 30, 2011	15,407,802	$ 154	(451,329)	$ (5,595)	$ 164,263	$	$ (94,520)	$ 64,302
Restricted stock grant			107,500	1,322	(1,322)			
Forfeiture of restricted stock			(32,277)	(92)	92			
Acquisition of treasury stock			(54,296)	(181)				(181)
Non-cash compensation					838			838
Net loss							(11,802)	(11,802)
BALANCE ,September 30, 2012	15,407,802	$ 154	(430,402)	$ (4,546)	$ 163,871	$	$ (106,322)	$ 53,157

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)

	Years Ended September 30,		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (11,802)	$ (37,823)	$ (31,155)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Bad debt expense	(858)	(715)	7,440
Deferred financing cost amortization	209	338	314
Depreciation and amortization	2,146	6,356	5,291
Gain on sale of business units		(6,657)	
Loss (gain) on sale of assets	44	88	(174)
Non-cash compensation expense	838	907	1,370
Impairment	688	4,854	150
Deferred income tax	(39)	(107)	(1,244)
Changes in operating assets and liabilities			
Accounts receivable	11,130	(2,761)	17,768
Inventories	(6,698)	(537)	(2,642)
Costs and estimated earnings in excess of billings	1,782	2,222	(995)
Prepaid expenses and other current assets	(273)	1,206	1,820
Other non-current assets	211	3,092	1,463
Accounts payable and accrued expenses	(10,114)	14,861	(5,708)
Billings in excess of costs and estimated earnings	5,670	2,476	(5,898)
Other non-current liabilities	(305)	348	(966)
Net cash used in operating activities	(7,371)	(11,852)	(13,166)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(1,877)	(2,688)	(924)
Proceeds from sales of property and equipment		1,268	328
Proceeds from sales of facilities		16,763	
Distribution from unconsolidated affiliates			393
Net cash provided by (used in) investing activities	(1,877)	15,343	(203)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings of debt			753
Repayments of debt	(264)	(766)	(18,184)
Purchase of treasury stock	(181)	(72)	(172)
Change in restricted cash	(7,155)		
Payments for debt issuance costs			(278)
Net cash used in financing activities	(7,600)	(838)	(17,881)
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	(16,848)	2,653	(31,250)
CASH AND CASH EQUIVALENTS, beginning of period	35,577	32,924	64,174
CASH AND CASH EQUIVALENTS, end of period	$ 18,729	$ 35,577	$ 32,924

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	2012	2011	2010
Cash paid for interest	$ 1,646	$ 2,293	$ 3,899
Cash paid for income taxes	$ 436	$ 340	$ 263
Assets acquired under capital lease	$	$ 68	$

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, was founded in June 1997 to establish a leading national provider of electrical services, focusing primarily on the communications, residential, commercial and industrial service and maintenance markets. We provide services from 61 locations serving the United States. The Company is organized into three business segments; Communications, Residential and Commercial & Industrial. 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 division 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, hi-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, which includes our Communications headquarters located in Tempe, Arizona, allowing for dedicated onsite maintenance teams at our customer s sites.

Our Residential division 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 division is made up of 32 total locations, which includes our Residential headquarters in Houston. These division locations geographically cover Texas, the Sun-Belt, and the Western and Mid-Atlantic regions of the United States, including Hawaii.

Our Commercial & Industrial division is one of the largest providers of electrical contracting services in the United States. The division offers a broad range of electrical design, construction, renovation, engineering and maintenance services to the commercial and industrial markets. The Commercial & Industrial division consist of 19 total locations, 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.

Controlling Shareholder

At September 30, 2012, 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

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

significant control over 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. For a more complete discussion on our relationship with Tontine, please refer to Note 3, Controlling Shareholder in the notes to our Consolidated Financial Statements.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of IES and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature.

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 is held within a location selected for closure during 2011. This impairment is to adjust the carrying value of real estate held for sale to the estimated current market value less expected selling expenses, a value at which we expect to sell this real estate within one year. The real estate is classified as assets held for sale within our Consolidated Balance Sheets. The impairment charge is included in our net loss from discontinued operations within our Consolidated Statement of Operations.

During the fiscal year ended September 30, 2011, the Company recorded a pretax non-cash asset impairment charge of $3,551 related to certain internally-developed capitalized software, $968 for our investment in EnerTech Capital Partners II L.P. (EnerTech), $142 for goodwill and $143 related to real estate held by the Company which was impaired further in 2012, as noted above. The Company ceased use of the internally-developed software in 2011. As a result, the software has a fair value of zero. The non-cash impairments related to the investment in EnerTech and the real estate are to adjust the carrying value to their estimated current market values.

Use of Estimates

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

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

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, unrecognized tax benefits and self-insured claims liabilities and related reserves.

Cash and Cash Equivalents

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

Inventories generally consist of parts and supplies held for use in the ordinary course of business and are valued at the lower of cost or market generally using the historical average cost or first-in, first-out (FIFO) method. Where shipping and handling costs are borne by us, these charges are included in inventory and charged to cost of services upon use in our projects or the providing of services.

Securities and Equity Investments

Our investments are accounted for using either the cost or equity method of accounting, as appropriate. Each period, we evaluate whether an event or change in circumstances has occurred that may indicate an investment has been impaired. If, upon further investigation of such events, we determine the investment has suffered a decline in value that is other than temporary, we write down the investment to its estimated fair value.

Certain securities are classified as available-for-sale. These investments are recorded at fair value and are classified as other non-current assets in the accompanying Consolidated Balance Sheets as of September 30, 2012. The changes in fair values, net of applicable taxes, are recorded as unrealized gains (losses) as a component of accumulated other comprehensive income (loss) in stockholders equity.

Long-Term Receivables

From time to time, we enter into payment plans with certain customers over periods in excess of one year. We classify these receivables as long-term receivables. Additionally, we provide an allowance for doubtful accounts for specific long-term receivables where collection is considered doubtful.

In March 2009, in connection with a construction project entering bankruptcy, we transferred $3,992 of trade accounts receivable to long-term receivable 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, given the significant uncertainty associated with its ultimate collectability we reserved the remaining balance of $3,714, but continued to pursue collection through the bankruptcy court proceeding. In February 2011, we entered into a $2,850 settlement in connection with the breach of contract and mechanics lien foreclosure actions related to the receivable. The $2,850 recovery was recorded in the accompanying consolidated statements of operations as a component of selling, general, and administrative expenses.

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Property and Equipment

Additions of property and equipment are recorded at cost, and depreciation is computed using the straight-line method over the estimated useful life of the related asset. Leasehold improvements are capitalized and depreciated over the lesser of the life of the lease or the estimated useful life of the asset.

Expenditures for repairs and maintenance are charged to expense when incurred. Expenditures for major renewals and betterments, which extend the useful lives of existing property and equipment, are capitalized and depreciated. Upon retirement or disposition of property and equipment, the capitalized cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the statement of operations in the caption (gain) loss on sale of assets.

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.

As of September 30, 2012, the entire goodwill balance of $4,446 can be attributed to our Residential segment. Based upon the results of our annual impairment analysis, the fair value of our Residential segment significantly exceeded the book value, and warrants no impairment. We recorded goodwill impairment of $142 during the year ended September 30, 2011, bringing the goodwill balance attributable to our Commercial & Industrial segment to zero. There is no goodwill associated with our Communications segment.

Debt Issuance Costs

Debt issuance costs are included in other noncurrent assets and are amortized to interest expense over the scheduled maturity of the debt. Amortization expense of debt issuance costs was $568, $338 and $315, respectively, for the years ended 2012, 2011 and 2010. At September 30, 2012, remaining unamortized capitalized debt issuance costs were $1,139.

Revenue Recognition

We recognize revenue on project contracts using the percentage of completion method. Project contracts generally provide that customers accept completion of progress to date and compensate us for services rendered measured in terms of units installed, hours expended or some other measure of progress. We recognize revenue on both signed contracts and change orders. A discussion of our treatment of claims and unapproved change orders is described later in this section. Percentage of completion for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total cost for each contract at completion. We generally consider contracts to be substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material, labor and insurance costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in job performance, job conditions, estimated contract costs and profitability and final contract settlements may result in revisions to costs and income and the effects of these revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined. The balances billed but not paid by customers pursuant to retainage provisions in project contracts will be due upon completion of the

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

contracts and acceptance by the customer. Based on our experience with similar contracts in recent years, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

Certain divisions in the Residential segment use the completed contract method of accounting because the duration of their contracts is short in nature. We recognize revenue on completed contracts when the project is complete and billable to the customer. Provisions for estimated losses on these contracts are recorded in the period such losses are determined.

Service work consists of time and materials projects that are billed at either contractual or current standard rates. Revenues from service work are recognized when services are performed.

The current asset Costs and estimated earnings in excess of billings on uncompleted contracts represents revenues recognized in excess of amounts billed which management believes will be billed and collected within the next twelve months. The current liability Billings in excess of costs and estimated earnings on uncompleted contracts represents billings in excess of revenues recognized. Costs and estimated earnings in excess of billings on uncompleted contracts are amounts considered recoverable from customers based on different measures of performance, including achievement of specific milestones, completion of specified units or at the completion of the contract. Also included in this asset, from time to time, are claims and unapproved change orders which are amounts we are in the process of collecting from our customers or agencies for changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price, or other related causes of unanticipated additional contract costs. Claims are limited to costs incurred and are recorded at estimated realizable value when collection is probable and can be reasonably estimated. We do not recognize profits on project costs incurred in connection with claims. Claims made by us involve negotiation and, in certain cases, litigation. Such litigation costs are expensed as incurred. As of September 30, 2012, 2011 and 2010, there were no material revenues recorded associated with any claims.

Accounts Receivable and Allowance for Doubtful Accounts

We record accounts receivable for all amounts billed and not collected. Generally, we do not charge interest on outstanding accounts receivable; however, from time to time we may believe it necessary to charge interest on a case by case basis. Additionally, we provide an allowance for doubtful accounts for specific accounts receivable where collection is considered doubtful as well as for general unknown collection issues based on historical trends. Accounts receivable not determined to be collectible are written off as deemed necessary in the period such determination is made. As is common in our respective industries, some of these receivables are in litigation or require us to exercise our contractual lien rights in order to collect. These receivables are primarily associated with a few divisions within our Commercial & Industrial segment. Certain other receivables are slow-pay in nature and require us to exercise our contractual or lien rights. We believe that our allowance for doubtful accounts is sufficient to cover uncollectible receivables as of September 30, 2012.

Comprehensive Income

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to stockholders.

Advertising

Advertising and marketing expense for the years ended September 30, 2012, 2011 and 2010 was approximately $420, $512, and $1,547, respectively. Advertising costs are charged to expense as incurred and are included in the Selling, general and administrative expenses line item on the Consolidated Statements of Operations.

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Income Taxes

We follow the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recorded for the future income tax consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities, and are measured using enacted tax rates and laws.

We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation at least annually at the end of each fiscal year. The estimation of required valuation allowances includes estimates of future taxable income. In assessing the realizability of deferred tax assets at September 30, 2012, we considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. If actual future taxable income is different from the estimates, our results could be affected. We have determined to fully reserve against such an occurrence.

On May 12, 2006, we had a change in ownership as defined in Internal Revenue Code Section 382. Internal Revenue Code Section 382 limits the utilization of net operating losses that existed as of the change in ownership in tax periods subsequent to the change in ownership. As such, our utilization after the change date of net operating losses in existence as of the change in ownership is subject to Internal Revenue Code 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.

Risk-Management

We retain the risk for workers compensation, employer s liability, automobile liability, general liability and employee group health claims, resulting from uninsured deductibles per accident or occurrence which are subject to annual aggregate limits. Our general liability program provides coverage for bodily injury and property damage. Losses up to the deductible amounts are accrued based upon our known claims incurred and an estimate of claims incurred but not reported. For the year ended September 30, 2012, we compiled our historical data pertaining to the insurance experiences and actuarially developed the ultimate loss associated with our insurance programs. We believe that the actuarial valuation provides the best estimate of the ultimate losses to be expected under these programs.

The undiscounted ultimate losses of all insurance reserves at September 30, 2012 and 2011, was $6,864 and $8,353, respectively. Based on historical payment patterns, we expect payments of undiscounted ultimate losses to be made as follows:

Year Ended September 30:	
2013	$ 2,948
2014	1,328
2015	821
2016	494
2017	305
Thereafter	968
Total	$ 6,864

We elect to discount the ultimate losses above to present value using an approximate risk-free rate over the average life of our insurance claims. For the years ended September 30, 2012 and 2011, the discount rate used

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

was 0.6 percent and 1 percent, respectively. The decrease in discount rate is driven by the prolonged decline in interest rates and a decrease in the average life of our associated claims. The present value of all insurance reserves for the employee group health claims, workers compensation, auto and general liability recorded at September 30, 2012 and 2011 was $5,228 and $7,040, respectively. Our employee group health claims are anticipated to be resolved within the year ended September 30, 2013.

We had letters of credit of $6,218 outstanding at September 30, 2012 to collateralize our high deductible insurance obligations.

Realization of Long-Lived Assets

We evaluate the recoverability of property and equipment and other long-lived assets as facts and circumstances indicate that any of those assets might be impaired. If an evaluation is required for our assets we plan to hold and use, the estimated future undiscounted cash flows associated with the asset are compared to the asset s carrying amount to determine if an impairment of such property has occurred. The effect of any impairment would be to expense the difference between the fair value of such property and its carrying value. Estimated fair values are determined based on expected future cash flows discounted at a rate we believe incorporates the time value of money, the expectations about future cash flows and an appropriate risk premium.

At September 30, 2012, 2011 and 2010, we performed evaluations of our long-lived assets. These evaluations resulted in impairment charges as described above under *Asset Impairment* .

Risk Concentration

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash deposits and accounts receivable. We grant credit, usually without collateral, to our customers, who are generally large public companies, contractors and homebuilders throughout the United States. Consequently, we are subject to potential credit risk related to changes in business and economic factors throughout the United States, specifically, within the construction, homebuilding and mission critical facility markets. However, we are entitled to payment for work performed and have certain lien rights in that work. Further, management believes that its contract acceptance, billing and collection policies are adequate to manage potential credit risk. We routinely maintain cash balances in financial institutions in excess of federally insured limits. We periodically assess the financial condition of these institutions where these funds are held and believe the credit risk is minimal. As a result of recent credit market turmoil we maintain the majority of our cash and cash equivalents in money market mutual funds.

No single customer accounted for more than 10% of our revenues for the years ended September 30, 2012, 2011 and 2010.

Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, investments, accounts payable, a note 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, 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 (Level 3) is $10,259 calculated using a market approach based upon Level 3 inputs, including an estimated interest rate reflecting current market conditions at September 30, 2012. For additional information, please refer to Note 8, Debt *The Tontine Term Loan* of this report.

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We estimate that the fair value of our investment in EnerTech (Level 3) is $988 at September 30, 2012 calculated using quoted market prices for underlying publicly traded securities, and estimated enterprise values determined using cash flow projections and market multiples of the underlying non-public companies. For additional information, please refer to Note 7, Detail of Certain Balance Sheet Accounts *Securities and Equity Investments Investment in EnerTech.*

Stock-Based Compensation

We measure and record compensation expense for all share-based payment awards based on the fair value of the awards granted, net of estimated forfeitures, at the date of grant. We calculate the fair value of stock options using a binomial option pricing model. The fair value of restricted stock awards is determined based on the number of shares granted and the closing price of IES s common stock on the date of grant. Forfeitures are estimated at the time of grant and revised as deemed necessary. The resulting compensation expense from discretionary awards is recognized on a straight-line basis over the requisite service period, which is generally the vesting period, while compensation expense from performance based awards is recognized using the graded vesting method over the requisite service period. The cash flows resulting from the tax deductions in excess of the compensation expense recognized for options and restricted stock (excess tax benefit) are classified as financing cash flows.

Deferred Compensation Plans

The Company maintains a rabbi trust to fund certain deferred compensation plans. The securities held by the trust are classified as trading securities. The investments are recorded at fair value and are classified as other non-current assets in the accompanying Consolidated Balance Sheets as of September 30, 2012 and 2011. The changes in fair values are recorded as unrealized gains (losses) as a component of other income (expense) in the Consolidated Statements of Operations.

The corresponding deferred compensation liability is included in other non-current liabilities on the Consolidated Balance Sheets and changes in this obligation are recognized as adjustments to compensation expense in the period in which they are determined.

3. CONTROLLING SHAREHOLDER

On April 30, 2010, we prepaid $15,000 of the original $25,000 principal outstanding on the Tontine Term Loan and $10,000 remains outstanding on the Tontine Term Loan. The Company is currently evaluating its options with regard to repayment of the Tontine Term Loan, including through a refinancing of the loan prior to or at its maturity.

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. Tontine has indicated to the Company that it may seek to register some or all of its shares in the near future.

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. While the Company is currently evaluating steps it may take to protect its federal NOLs, including evaluating implementing a tax benefit protection plan that

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would be 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, there can be no assurance that such a plan will be implemented or that, if enacted, it would 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.

4. STRATEGIC ACTIONS

We seek to create shareholder value through above average returns on capital and generation of free cash flow. As a result, we have increased our focus on a number of initiatives to return the Company to profitability.

The 2009 Restructuring Plan

In the first quarter of our 2009 fiscal year, we began a restructuring program (the 2009 Restructuring Plan) that was designed to consolidate operations within our three segments. The 2009 Restructuring Plan was the next level of our business optimization strategy. 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 over the past 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 & Industrial administrative functions into one service center. We recorded a total of $8,170 in restructuring charges for the 2009 Restructuring Plan. As part of the restructuring charges, we recognized $154, $2,662, $3,917 and $1,437 in severance and facility closing charges within our Communications, Residential, Commercial & Industrial and Corporate segments, respectively. This 2009 Restructuring Plan was completed in fiscal 2010.

The 2011 Restructuring Plan

In the second quarter of our 2011 fiscal year, we began a new 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 are in several locations throughout the country, including Arizona, Florida, Iowa, Massachusetts, Louisiana, Nevada and Texas. These facilities were selected due to current business prospects 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 within our Commercial & Industrial segment we have recognized $(62) and $1,455 in severance costs, $1,099 and $1,530 in consulting services, and $133 and $799 in costs related to lease terminations for the years ended September 30, 2012 and 2011, respectively. Charges related to the 2011 Restructuring Plan in 2013 are expected to be immaterial.

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The 2011 Restructuring Plan pertains 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, 2011	$ 1,081	$ 336	$ 790	$ 2,207
Restructuring charges (reversals) incurred	(62)	1,099	133	1,170
Cash payments made	(818)	(1,425)	(594)	(2,837)
Restructuring liability at September 30, 2012	$ 201	$ 10	$ 329	$ 540

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Estimated Useful Lives in Years	Years Ended September 30, 2012	2011
Land	N/A	$ 1,795	$ 1,795
Buildings	5-20	1,491	3,202
Transportation equipment	3-5	1,695	1,720
Machinery and equipment	3-10	4,732	4,463
Leasehold improvements	5-10	2,015	1,772
Information systems	2-8	15,289	14,549
Furniture and fixtures	5-7	887	1,003
		$ 27,904	$ 28,504
Less Accumulated depreciation and amortization		(21,424)	(20,488)
Property and equipment, net		$ 6,480	$ 8,016

Depreciation and amortization expense from continuing operations was $2,075, $6,216 and $4,832, respectively, for the years ended September 30, 2012, 2011 and 2010.

6. PER SHARE INFORMATION

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.

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The following table reconciles the components of the basic and diluted loss per share for the years ended September 30, 2012, 2011 and 2010:

	Years Ended September 30, 2012	2011
Numerator:		
Net loss from continuing operations attributable to common shareholders	$ (2,655)	$ (19,561)
Net loss from discontinued operations attributable to common shareholders	$ (9,147)	$ (18,262)
Net loss attributable to common shareholders	$ (11,802)	$ (37,823)
Net loss	$ (11,802)	$ (37,823)
Denominator:		
Weighted average common shares outstanding basic	14,625,776	14,493,747
Effect of dilutive stock options and non-vested restricted stock		
Basic loss per share	$ (0.81)	$ (2.61)
Diluted loss per share	$ (0.81)	$ (2.61)

For the years ended September 30, 2012, 2011 and 2010, 20,000, 20,000 and 158,500 stock options, respectively, were excluded from the computation of fully diluted earnings per share because the exercise prices of the options were greater than the average price of our common stock. For the years ended September 30, 2012, 2011 and 2010, 257,826, 376,200 and 348,086 shares, respectively, of restricted stock were excluded from the computation of fully diluted earnings per share because we reported a loss from continuing operations.

7. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

Activity in our allowance for doubtful accounts on accounts and long-term receivables consists of the following:

	Years Ended September 30, 2012	2011
Balance at beginning of period	$ 2,704	$ 7,429
Additions to costs and expenses	771	1,071
Deductions for uncollectible receivables written off, net of recoveries	(1,687)	(5,796)
Balance at end of period	$ 1,788	$ 2,704

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Accounts payable and accrued expenses consist of the following:

	Years Ended September 30,	
	2012	2011
Accounts payable, trade	$ 39,879	$ 49,556
Accrued compensation and benefits	13,312	11,662
Accrued insurance liabilities	5,229	7,040
Other accrued expenses	10,253	10,722
	$ 68,673	$ 78,980

Contracts in progress are as follows:

	Years Ended September 30,	
	2012	2011
Costs incurred on contracts in progress	$ 402,738	$ 335,204
Estimated earnings	33,931	21,942
	436,669	357,146
Less Billings to date	(453,744)	(366,768)
Net contracts in progress	$ (17,075)	$ (9,622)
Costs and estimated earnings in excess of billings on uncompleted contracts	8,180	9,963
Less Billings in excess of costs and estimated earnings on uncompleted contracts	(25,255)	(19,585)
Net contracts in progress	$ (17,075)	$ (9,622)

Other non-current assets are comprised of the following:

	Years Ended September 30,	
	2012	2011
Deposits	$ 2,137	$ 3,986
Deferred tax assets	1,065	1,040
Executive Savings Plan assets	533	477
Securities and equity investments	919	1,003
Other	1,489	581

Total	$ 6,143	$ 7,087

Securities and Equity Investments

Investment in EPV Solar

We assessed the fair market value of our investment in EPV after its restructuring in 2009 and determined that it was below its carrying value. Accordingly, we recorded a $2,850 other-than-temporary impairment loss for the year ended September 30, 2009. The total impairment loss is reflected in our Consolidated Statements of Operations as a component of Other Expense and reduced the carrying value of our investment from $3,000 to $150 at September 30, 2009.

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On February 24, 2010, EPV filed for Chapter 11 bankruptcy protection. On August 20, 2010, the United States Bankruptcy Court District of New Jersey authorized and approved the sale of substantially all of EPV s assets free and clear of liens, claims, encumbrances and interests to a third-party solar company. As this sale cancelled our claims to our convertible note receivable, we recorded an impairment loss of $150 during the year ended September 30, 2010, which reduced its carrying value to $0.

Investment in EnerTech

In April 2000, we committed to invest up to $5,000 in EnerTech. As of September 30, 2009, we fulfilled our $5,000 investment under this commitment. As our investment is 2.31% of the overall ownership in EnerTech at September 30, 2012 and 2011, we account for this investment using the cost method of accounting. EnerTech s investment portfolio from time to time results in unrealized losses reflecting a possible, other-than-temporary, impairment of our investment. The carrying value of our investment in EnerTech at September 30, 2012 and 2011 was $919 and $1,003, respectively. Our results of operations for the year ended September 30, 2011, includes a write down of $967 attributable to our investment in EnerTech.

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 September 30, 2012 and 2011:

	Years Ended September 30,	
	2012	2011
Carrying value	$ 919	$ 1,003
Unrealized gains	69	
Fair value	$ 988	$ 1,003

At each reporting date, the Company performs evaluations of impairment for securities to determine if any unrealized losses are other-than-temporary. For equity securities, this evaluation considers a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer and management s ability and intent to hold the securities until fair value recovers. The assessment of the ability and intent to hold these securities to recovery focuses on liquidity needs, asset and liability management objectives and securities portfolio objectives. Based on the results of this evaluation, we believe the unrealized gain at September 30, 2012 indicated our investment was not impaired. As of September 30, 2012 and 2011, the carrying value of these investments was $919 and $1,003, respectively. See Note 15, Fair Value Measurements for related disclosures relative to fair value measurements.

In June 2012, we received a distribution from EnerTech of $84, which was applied as a reduction in the carrying value of the investment.

On December 31, 2011, EnerTech s general partner, with the consent of the fund s investors, extended the fund through December 31, 2012. 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, 2013 with the consent of the fund s valuation committee.

Arbinet Corporation

On May 15, 2006, we received a distribution from the investment in EnerTech of 32,967 shares in Arbinet Corporation. We sold these shares in fiscal 2011; accordingly, the amount of unrealized holding losses included in other comprehensive income at September 30, 2012, 2011 and 2010 is $0 and $0 and $88 respectively.

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8. DEBT

Debt consists of the following:

	September 30, 2012	September 30, 2011
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	$ 10,000	$ 10,000
Insurance Financing Agreements	196	
Capital leases and other	284	498
Total debt	10,480	10,498
Less Short-term debt and current maturities of long-term debt	(10,456)	(209)
Total long-term debt	$ 24	$ 10,289

Future payments on debt at September 30, 2012 are as follows:

	Capital Leases and Other	Insurance Financing	Term Debt	Total
2012	$	$ 196	$	$ 196
2013	317		10,000	10,317
2014	27			27
2015				
2016				
Thereafter				
Less: Imputed Interest	(60)			(60)
Total	$ 284	$ 196	$ 10,000	$ 10,480

For the years ended September 30, 2012, 2011 and 2010, we incurred interest expense of $2,324, $2,278 and $3,513, respectively.

The 2012 Revolving Credit Facility

On August 9, 2012, we entered into a Credit and Security Agreement (the Credit Agreement), for a $30,000 revolving credit facility (the 2012 Credit Facility) with Wells Fargo Bank, National Association. The 2012 Credit Facility will mature on August 9, 2015, unless earlier terminated. The Credit Agreement is filed as an Exhibit to this Form 10-K and any description thereof is qualified in its entirety by the terms of the Credit Agreement.

The 2012 Credit Facility contains customary affirmative, negative and financial covenants. The 2012 Credit Facility requires 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 and cash equivalents on hand plus Excess Availability (as defined in the Credit Agreement) is less than $20,000 or Excess Availability is less than $7,500.

Borrowings under the 2012 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

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the 2012 Credit Facility, amounts outstanding bear interest at a per annum rate equal to a Daily Three Month LIBOR (as defined in the Credit Agreement), plus an interest rate margin, which is determined quarterly, based on the following thresholds:

Level	Thresholds	Interest Rate Margin
I	Liquidity £ $20,000 at any time during the period; or Excess Availability £ $7,500 at any time during the period; or Fixed charge coverage ratio < 1.0:1.0	4.00 percentage points
II	Liquidity > $20,000 at all times during the period; and Liquidity £ $30,000 at any time during the period; and Excess Availability $7,500; and Fixed charge coverage ratio ³ 1.0:1.0	3.50 percentage points
III	Liquidity > $30,000 at all times during the period	3.00 percentage points

In addition, we are charged monthly in arrears for (1) an unused commitment fee of 0.50% per annum, (2) a collateral monitoring fee ranging from $1 to $2, based on the then-applicable interest rate margin, (3) a letter of credit fee based on the then-applicable interest rate margin and (4) certain other fees and charges as specified in the Credit Agreement.

The 2012 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 2012 Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock and on our ability to repay the Tontine Term Loan.

At September 30, 2012, we had $21,607 available to us under the 2012 Credit Facility, $700 in outstanding letters of credit with Wells Fargo and no outstanding borrowings. The terms surrounding the 2012 Credit Facility agreement with Wells Fargo require that we cash collateralize 100% of our letter of credit balance. As such, we have $700 classified as restricted cash within the Balance Sheet as of September 30, 2012.

At September 30, 2012, we were subject to the financial covenant under the 2012 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 and cash equivalents on hand plus Excess Availability is less than $20.0 million or Excess Availability is less than $7.5 million. As of September 30, 2012, our aggregate amount of unrestricted cash and cash equivalents on hand plus Excess Availability was in excess of $20.0 million and Excess Availability was in excess of $7.5 million; had we not met these thresholds at September 30, 2012, we would not have met the required 1.0:1.0 fixed charge coverage ratio test.

While we expect to meet our financial covenants, in the event that we are not able to meet the covenants of our 2012 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 2006 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 2006 Credit Facility) with Bank of America, N.A. and certain other lenders. On

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August 9, 2012, the 2006 Credit Facility was replaced by the 2012 Credit Facility. The 2006 Credit Facility and its amendments are filed as Exhibits to this Form 10-K and any descriptions thereof are qualified in their entirety by the terms of the 2006 Credit Facility or its respective amendments. On May 7, 2008, we renegotiated the terms of our 2006 Credit Facility and entered into an amended agreement with the same financial institutions. On April 30, 2010, we renegotiated the terms of, and entered into an amendment to the Loan and Security Agreement pursuant to which the maturity date was extended to May 31, 2012. In connection with the amendment, we incurred an amendment fee of $200, which was amortized over 24 months.

On December 15, 2011, 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 2006 Credit Facility, the size of the facility was reduced to $40,000 and the maturity date was extended to November 12, 2012. Under the terms of the amended 2006 Credit Facility, we were required to cash collateralize all of our letters of credit issued by the banks. The cash collateral was added to the borrowing base calculation at 100% throughout the term of the agreement. The 2006 Credit Facility required 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 was less than $25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability had been at least $25,000 for a period of 60 consecutive days. The amended Agreement also called for cost of borrowings of 4.0% over LIBOR per annum. Cost for letters of credit was the same as borrowings and also included a 25 basis point fronting fee. All other terms and conditions remained unchanged. In connection with the amendment, we incurred an amendment fee of $60 which, together with unamortized balance of the prior amendment was amortized using the straight line method through August 30, 2012.

The 2006 Credit Facility was 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 2006 Credit Facility contained customary affirmative, negative and financial covenants. The 2006 Credit Facility also restricted us from paying cash dividends and placed limitations on our ability to repurchase our common stock.

Borrowings under the 2006 Credit Facility could not exceed a borrowing base that was determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventories. Under the terms of the 2006 Credit Facility in effect as of August 30, 2012, interest for loans and letter of credit fees was based on our Total Liquidity, which is calculated for any given period as the sum of average daily availability for such period plus 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 September 30, 2012, we had $6,148 in outstanding letters of credit with Bank of America. The terms surrounding the termination of the 2006 Credit Facility require that we cash collateralize 105% of our letter of credit balance. As such, we have $6,455 classified as restricted cash within the Balance Sheet as of September 30, 2012.

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For the year ended September 30, 2012, we paid no interest for loans under the 2006 Credit Facility and had a weighted average interest rate, including fronting fees, of 3.49% for letters of credit. In addition, we were 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.

As of August 9, 2012, we were subject to the financial covenant under the 2006 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 August 9, 2012, our Total Liquidity was in excess of $25,000.

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 Tontine Capital Overseas Master Fund II, L.P, also a related party. We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty within the restrictions of the 2012 Credit Facility. The Company is currently evaluating its options with regard to repayment of the Tontine Term Loan, including through a refinancing of the loan prior to or at its maturity.

The Tontine Term Loan is subordinated to the 2012 Credit Facility. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers and contains 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.

Capital Lease

The Company leases certain equipment under agreements, which are classified as capital leases and included in property, plant and equipment. Amortization of this equipment for the years ended September 30, 2012, 2011 and 2010 was $182, $172 and $157, respectively, which is included in depreciation expense in the accompanying statements of operations.

9. LEASES

We enter into non-cancelable operating leases for many of our facility, vehicle and equipment needs. These leases allow us to retain cash, 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.

For a discussion of leases with certain related parties which are included below, see Note 13, Related-Party Transactions.

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Rent expense was $3,461, $4,056 and $4,599 for the years ended September 30, 2012, 2011 and 2010, respectively, and included within the selling, general and administrative expenses in the Consolidated Statements of Operations.

Future minimum lease payments under these non-cancelable operating leases with terms in excess of one year are as follows:

Year Ended September 30:	
2013	$ 3,464
2014	2,477
2015	1,493
2016	940
2017	542
Thereafter	751
Total	$ 9,667

10. INCOME TAXES

Federal and state income tax provisions for continuing operations are as follows:

	Years Ended September 30,		
	2012	2011	2010
Federal:			
Current	$	$	$
Deferred			
State:			
Current	253	250	114
Deferred	(215)	(78)	(150)
	$ 38	$ 172	$ (36)

Actual income tax expense differs from income tax expense computed by applying the U.S. federal statutory corporate rate of 35 percent to income before provision for income taxes as follows:

	Years Ended September 30,		
	2012	2011	2010
Provision (benefit) at the statutory rate	$ (918)	$ (6,786)	$ (7,926)
Increase resulting from:			
Non-deductible expenses	490	548	511
State income taxes, net of federal deduction	106		
Change in valuation allowance	581	7,066	7,907
Other		16	31

Decrease resulting from:			
State income taxes, net of federal deduction		(600)	(326)
Contingent tax liabilities	(206)	(72)	(233)
Other	(15)		
	$ 38	$ 172	$ (36)

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Deferred income tax provisions result from temporary differences in the recognition of income and expenses for financial reporting purposes and for income tax purposes. The income tax effects of these temporary differences, representing deferred income tax assets and liabilities, result principally from the following:

	Years Ended September 30,	
	2012	2011
Deferred income tax assets:		
Allowance for doubtful accounts	$ 675	$ 998
Accrued expenses	6,254	5,646
Net operating loss carryforward	106,004	103,650
Various reserves	1,085	1,728
Equity losses in affiliate	292	286
Share-based compensation	2,757	2,676
Capital loss carryforward	3,909	3,889
Property	397	
Other	1,651	1,836
Subtotal	123,024	120,709
Less valuation allowance	(121,962)	(119,738)
Total deferred income tax assets	$ 1,062	$ 971
Deferred income tax liabilities:		
Property and equipment	$	$
Deferred contract revenue and other	(196)	(106)
Total deferred income tax liabilities	(196)	(106)
Net deferred income tax assets	$ 866	$ 865

In 2002, we adopted a tax accounting method change that allowed us to deduct goodwill for income tax purposes that had previously been classified as non-deductible. The accounting method change resulted in additional amortizable tax basis in goodwill. We believe the realization of the additional tax basis in goodwill is less than probable and have not recorded a deferred tax asset. Although a deferred tax asset has not been recorded through September 30, 2012, we have derived a cumulative cash tax reduction of $11,443 from the change in tax accounting method and the subsequent amortization of the additional tax goodwill. In addition, the amortization of the additional tax goodwill has resulted in additional federal net operating loss carry forwards of $138,892 and state net operating loss carry forwards of $13,622. We believe the realization of the additional net operating loss carry forwards is less than probable and have not recorded a deferred tax asset. We have $2,936 of tax basis in the additional tax goodwill that remains to be amortized. As of September 30, 2012, approximately two years remain to be amortized.

As of September 30, 2012, we had available approximately $451,853 of federal net tax operating loss carry forward for federal income tax purposes, including $138,892 resulting from the additional amortization of tax goodwill. This carry forward, which may provide future tax benefits, will begin to expire in 2022. On May 12, 2006, we had a change in ownership as defined in Internal Revenue Code Section 382. As such, our utilization after the change date of our net operating loss in existence as of the change of control date was subject to Section 382 limitations for federal income taxes and some state income taxes. The annual limitation under Section 382 on the utilization of federal net operating losses was approximately $20,000 for the first five tax years subsequent to the change in ownership and $16,000 thereafter. Approximately $280,934 of federal net operating losses will not be subject to this limitation. Also, after applying the Section 382 limitation to

available state net operating loss carry forwards, we had available approximately $139,654 state net tax operating loss

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carry forwards, including $13,622 resulting from the additional amortization of tax goodwill which begin to expire as of September 30, 2012. 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.

In assessing the realizability of deferred tax assets at September 30, 2012, we considered whether it was more likely than not that some portion or all of the deferred tax assets will not be realized. Our realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. However, GAAP guidelines place considerably more weight on historical results and less weight on future projections when there is negative evidence such as cumulative pretax losses in recent years. We incurred a cumulative pretax loss for September 30, 2012, 2011 and 2010. In the absence of specific favorable evidence of sufficient weight to offset the negative evidence of the cumulative pretax loss, we have provided valuation allowances of $117,343 for all federal deferred tax assets and $4,503 for certain state deferred tax assets. We believe that $457 of federal deferred tax assets will be realized by offsetting reversing deferred tax liabilities. We believe that $866 of state deferred tax assets will be realized and valuation allowances were not provided for these assets. We will evaluate the appropriateness of our remaining deferred tax assets and valuation allowances on at least annually at the end of each fiscal year.

As a result of the reorganization and related adjustment to the book basis in goodwill, we have tax basis in excess of book basis in amortizable goodwill of approximately $23,902. The tax basis in amortizable goodwill in excess of book basis is not reflected as a deferred tax asset. To the extent the amortization of the excess tax basis results in a cash tax benefit, the benefit will first go to reduce goodwill, then other long-term intangible assets, and then additional paid-in capital. As of September 30, 2012, we have received $72 in cash tax benefits related to the amortization of excess tax basis.

GAAP requires financial statement reporting of the expected future tax consequences of uncertain tax return reporting positions on the presumption that all relevant tax authorities possess full knowledge of those tax reporting positions, as well as all of the pertinent facts and circumstances, but it prohibits discounting of any of the related tax effects for the time value of money. The evaluation of a tax position is a two-step process. The first step is the recognition process to determine if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The second step is a measurement process whereby a tax position that meets the more likely than not recognition threshold is calculated to determine the amount of benefit/expense to recognize in the financial statements. The tax position is measured at the largest amount of benefit/expense that is more likely than not of being realized upon ultimate settlement.

A reconciliation of the beginning and ending balances of unrecognized tax liabilities is as follows:

Balance at October 1, 2011	$ 5,545
Additions for position related to current year	5
Additions for positions of prior years	6
Reduction resulting from the lapse of the applicable statutes of limitations	(213)
Reduction resulting from settlement of positions of prior years	
Balance at September 30, 2012	$ 5,343

As of September 30, 2012, $5,343 of unrecognized tax benefits would result in a decrease in the provision for income tax expense. We anticipate that approximately $58 of unrecognized tax benefits, including accrued interest, may reverse in the next twelve months. The reversal is predominately due to the expiration of the statutes of limitation for unrecognized tax benefits.

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We had approximately $15 and $178 accrued for the payment of interest and penalties at September 30, 2012 and 2011, respectively. We recognize interest and penalties related to unrecognized tax benefits as part of the provision for income taxes.

We are currently not under federal audit by the Internal Revenue Service. The tax years ended September 30, 2009 and forward are subject to audit as are tax years prior to September 30, 2008, to the extent of unutilized net operating losses generated in those years.

The net deferred income tax assets and liabilities are comprised of the following:

	Years Ended September 30, 2012	2011
Current deferred income taxes:		
Assets	$ 283	$ 216
Liabilities	(197)	(107)
Net deferred tax asset, current	$ 86	$ 109
Noncurrent deferred income taxes:		
Assets	$ 1,065	$ 1,040
Liabilities	(285)	(284)
Net deferred tax asset, non-current	780	756
Net deferred income tax assets	$ 866	$ 865

11. OPERATING SEGMENTS

We 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. The Communications segment consists of low voltage installation, design, planning and maintenance for mission critical infrastructure such as data centers. The Residential segment consists of electrical installation, replacement and renovation services in single-family, condominium, townhouse and low-rise multifamily housing units. 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.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on income from operations of the respective business units prior to the allocation of Corporate office expenses. Transactions between segments are eliminated in consolidation. Our Corporate office provides general and administrative as well as support services to our three operating segments. Management allocates costs between segments for selling, general and administrative expenses and depreciation expense.

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Segment information for the years ended September 30, 2012, 2011 and 2010 is as follows:

	Years Ended September 30, 2012				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 121,492	$ 129,974	$ 204,649	$	$ 456,115
Cost of services	103,288	109,274	185,501		398,063
Gross profit	18,204	20,700	19,148		58,052
Selling, general and administrative	13,431	19,703	17,166	8,309	58,609
Loss (gain) on sale of assets	(60)	24	(132)		(168)
Income (loss) from operations	$ 4,833	$ 973	$ 2,114	$ (8,309)	$ (389)
Other data:					
Depreciation and amortization expense	$ 260	$ 375	$ 244	$ 1,196	$ 2,075
Capital expenditures	569	666	341	301	1,877
Total assets	$ 29,603	$ 33,927	$ 65,929	$ 35,254	$ 164,713

	Years Ended September 30, 2011				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 83,615	$ 114,732	$ 207,794	$	$ 406,141
Cost of services	71,142	96,042	194,573		361,757
Gross profit	12,473	18,690	13,221		44,384
Selling, general and administrative	9,578	18,441	21,788	13,514	63,321
Loss (gain) on sale of assets		116	(33)	(6,638)	(6,555)
Asset Impairments	72		71	4,661	4,804
Income (loss) from operations	$ 2,823	$ 133	$ (8,605)	$ (11,537)	$ (17,186)
Other data:					
Depreciation and amortization expense	$ 278	$ 514	$ 1,575	$ 3,849	$ 6,216
Capital expenditures	$ 928	$ 181	$ 431	$ 1,148	$ 2,688
Total assets	$ 23,073	$ 23,584	$ 79,506	$ 54,081	$ 180,244

	Years Ended September 30, 2010				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 69,171	$ 115,947	$ 197,313	$	$ 382,431
Cost of services	56,760	92,422	177,757		326,939

Gross profit	12,411	23,525	19,556		55,492
Selling, general and administrative	7,298	23,736	29,047	14,170	74,251
Loss (gain) on sale of assets		23	(86)	(65)	(128)
Restructuring charge	16		698	49	763
Income (loss) from operations	$ 5,097	$ (234)	$ (10,103)	$ (14,154)	$ (19,394)
Other data:					
Depreciation and amortization expense	$ 370	$ 949	$ 1,979	$ 1,534	$ 4,832
Capital expenditures	$ 31	$ 178	$ 363	$ 352	$ 924
Total assets	$ 28,092	$ 27,279	$ 86,335	$ 66,154	$ 207,860

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12. STOCKHOLDERS EQUITY

The 2006 Equity Incentive Plan became effective on May 12, 2006 (as amended, the 2006 Equity Incentive Plan). The 2006 Equity Incentive Plan provides for grants of stock options as well as grants of stock, including restricted stock. We have approximately 1.0 million shares of common stock authorized for issuance under the 2006 Equity Incentive Plan.

Treasury Stock

During the year ended September 30, 2012, we repurchased 54,296 common shares from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Equity Incentive Plan, and 32,277 unvested shares were forfeited by former employees and returned to treasury stock. We issued 107,500 shares out of treasury stock under our share-based compensation programs.

Restricted Stock

Restricted Stock Awards:

Fiscal Year	Shares Granted	Weighted Average Fair Value at Date of Grant	Vested	Forfeitures	Shares Outstanding	Expense recognized through September 30, 2012
2006	384,850	$ 24.78	258,347	126,503		$ 6,402
2006	25,000	$ 17.36	25,000			$ 434
2007	20,000	$ 25.08	20,000			$ 502
2007	4,000	$ 26.48	4,000			$ 106
2008	101,650	$ 19.17	85,750	15,900		$ 1,779
2009	185,100	$ 8.71	146,400	38,700		$ 1,344
2010	225,486	$ 3.64	59,347	77,439	88,700	$ 495
2011	320,000	$ 3.39	87,579	68,761	163,660	$ 388
2012	107,500	$ 2.07			107,500	$ 50

During the years ended September 30, 2012, 2011 and 2010, we recognized $536, $787, and $1,272, respectively, in compensation expense related to these restricted stock awards. At September 30, 2012, the unamortized compensation cost related to outstanding unvested restricted stock was $503. We expect to recognize $348 and $155 of this unamortized compensation expense during the years ended September 30, 2013 and 2014, respectively. A summary of restricted stock awards for the years ended September 30, 2012, 2011 and 2010 is provided in the table below:

	Years Ended September 30,		
	2012	2011	2010
Unvested at beginning of year	376,200	352,086	230,716
Granted	107,500	320,000	225,486
Vested	(192,973)	(165,628)	(66,116)
Forfeited	(32,901)	(130,258)	(38,000)

Unvested at end of year	257,826	376,200	352,086

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The fair value of shares vesting during the years ended September 30, 2012, 2011 and 2010 was $661, $520 and $423, respectively. Fair value was calculated as the number of shares vested times the market price of shares on the date of vesting. The weighted average grant date fair value of unvested restricted stock at September 30, 2012 was $2.59.

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

Phantom Stock Units

Phantom stock units (PSUs) are primarily granted to the members of the Board of Directors as part of their overall compensation. These PSUs are paid via unrestricted stock grants to each director upon their departure from the Board of Directors. We record compensation expense for the full value of the grant on the date of grant. For the years ended September 30, 2012, 2011 and 2010, we recognized $159, $100, and $125 in compensation expense related to these grants.

From time to time, PSUs are granted to employees. These PSUs are paid via unrestricted stock grants to each employee upon the satisfaction of the grant terms. We record compensation expense for the PSUs granted to employees over the grant vesting period. For the years ended September 30, 2012, 2011 and 2010, we recognized $129, $0, and $0 in compensation expense related to these grants.

Stock Options

We utilized a binomial option pricing model to measure the fair value of stock options granted. Our determination of 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 not considered under the binomial option pricing model that we utilize. The assumptions used in the fair value method calculation for the years ended September 30, 2012, 2011 and 2010 are disclosed in the following table:

	Years Ended September 30,		
	2012	2011	2010
Weighted average value per option granted during the period	$ N/A	$ 2.05	$ N/A
Dividends (1)	$ N/A	$	$ N/A
Stock price volatility (2)	N/A	69.9%	N/A
Risk-free rate of return	N/A	1.9%	N/A
Option term	N/A	10.0 years	N/A
Expected life	N/A	6.0 years	N/A
Forfeiture rate (3)	N/A	0.0%	N/A

(1) We do not currently pay dividends on our common stock.
(2) Based upon the Company s historical volatility.
(3) The forfeiture rate for these options was assumed on the date of grant to be zero based on the limited number of employees who have been awarded stock options.

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Stock-based compensation expense recognized during the period is based on the value of the portion of the share-based payment awards that is ultimately expected to vest during the period. As stock-based compensation expense recognized in the Consolidated Statements of Operations is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. We estimate our forfeitures at the time of grant and revise, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes activity under our stock option plans.

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2009	158,500	$ 18.66
Options granted		
Exercised		
Forfeited and Cancelled		
Outstanding, September 30, 2010	158,500	$ 18.66
Options granted	20,000	3.24
Exercised		
Forfeited and Cancelled	(158,500)	18.66
Outstanding, September 30, 2011	20,000	$ 3.24
Options granted		
Exercised		
Forfeited and Cancelled		
Outstanding, September 30, 2012	20,000	$ 3.24

The following table summarizes options outstanding and exercisable at September 30, 2012:

Range of Exercise Prices	Outstanding as of September 30, 2012	Remaining Contractual Life in Years	Weighted-Average Exercise Price	Exercisable as of September 30, 2012	Weighted-Average Exercise Price
$3.24	20,000	8.80	$ 3.24		$ 3.24
	20,000	8.80	$ 3.24		$ 3.24

All of our outstanding options vest over a three-year period at a rate of one-third per year upon the annual anniversary date of the grant and expire ten years from the grant date if they are not exercised. Upon exercise of stock options, it is our policy to first issue shares from treasury stock, then to issue new shares. Unexercised stock options expire between July 2016 and November 2018.

During the years ended September 30, 2012, 2011 and 2010, we recognized $14, $19 and $99, respectively, in compensation expense related to these awards. At September 30, 2012, the unamortized compensation cost related to outstanding unvested stock options was $25. We expect to recognize $14 and $11 of this unamortized compensation expense during the year ended September 30, 2013 and 2014.

There was no intrinsic value of stock options outstanding and exercisable at September 30, 2012 and 2011, respectively. The intrinsic value is calculated as the difference between the fair value as of the end of the period and the exercise price of the stock options.

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13. RELATED-PARTY TRANSACTIONS

In connection with some of our original acquisitions, certain divisions have entered into related party lease arrangements with former owners for facilities. Related party lease expense for the years ended September 30, 2012, 2011 and 2010 was $198, $265 and $432, respectively. Future commitments with respect to these leases are included in the schedule of minimum lease payments in Note 9, Leases.

As described more fully in Note 8, Debt *The Tontine Term Loan,* we entered into a $25,000 term loan with Tontine, a related party, in December 2007. On April 30, 2010, the Company issued a $15,000 payment towards the Tontine Term Loan, resulting in a reduction in interest expenses related to the Tontine Term Loan. During the years ended September 30, 2012, 2011 and 2010 we incurred interest expense of $1,103, $1,100 and $2,058, respectively, related to the Tontine Term Loan.

On March 29, 2012, we entered into a sublease agreement with Tontine Associates, LLC, an affiliate of Tontine, 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.

14. EMPLOYEE BENEFIT PLANS

401(k) Plan

In November 1998, we established the Integrated Electrical Services, Inc. 401(k) Retirement Savings Plan (the 401(k) Plan). All full-time IES employees are eligible to participate on the first day of the month subsequent to completing sixty days of service and attaining age twenty-one. Participants become vested in our matching contributions following three years of service.

Management Incentive Plan

On December 8, 2009, the Compensation Committee of the Board of Directors of IES approved and adopted the 2010 Incentive Compensation Plan including the performance-based criteria by which potential payouts to participants will be determined. The total award under the Incentive Compensation Plan is dependent on the level of achievement against performance goals. None of the performance-based criteria were met in 2010 for the Incentive Compensation Plan and no liability was recorded as of September 30, 2010.

On December 16, 2010, the Compensation Committee of the Board of Directors of IES approved and adopted the 2011 Incentive Compensation Plan including the performance-based criteria by which potential payouts to participants will be determined. The total award under the Incentive Compensation Plan is dependent on the level of achievement against performance goals. None of the performance-based criteria were met in 2011 for the Incentive Compensation Plan and no liability was recorded as of September 30, 2011.

On September 28, 2011, the Compensation Committee of the Board of Directors, of IES approved and adopted the Annual Incentive Plan for fiscal year 2012 including the performance-based criteria by which potential payouts to participants will be determined. The total award under the Annual Incentive Plan was dependent on the level of achievement against performance goals. As of September 30, 2012, we had recorded a total liability for incentive compensation of approximately $925, which was paid in fiscal 2013.

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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.

Post Retirement Benefit Plans

Certain individuals at one of the Company s locations are entitled to receive fixed annual payments that reach a maximum amount, as specified in the related agreements, for a ten year period following retirement or, in some cases, the attainment of 62 years of age. We recognize the unfunded status of the plan as a non-current liability in our Consolidated Balance Sheet. Benefits vest 50% after ten years of service, which increases by 10% per annum until benefits are fully vested after 15 years of service. We had an unfunded benefit liability of $827 and $781 recorded as of September 30, 2012 and 2011, respectively.

15. FAIR VALUE MEASUREMENTS

Fair Value Measurement Accounting

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.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012, 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 (Level 3)
Money market accounts	$ 7,204	$ 7,204		
Executive Savings Plan assets	533	533		
Executive Savings Plan liabilities	(418)	(418)		
EnerTech	988			988
Total	$ 8,307	$ 7,319		988

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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.

We estimated the fair value of our debt securities, solely consisting of our investment in EPV, within the Level 3 hierarchy based on current available information surrounding the private company in which we invested. The fair value of the investments in debt securities was $0 at September 30, 2012 and $0 at September 30, 2011. In the years ended September 30, 2012, 2011 and 2010, we recognized $0, $0 and $150, respectively, of impairment to these securities.

16. 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 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 our significant legal matters:

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.

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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 the acquired corporation that may have transacted business with the facility. As of September 30, 2012, 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.

TekWorks, Inc.

On August 5, 2011, TekWorks, Inc. filed suit in the Superior Court of California, county of San Diego against the Company and eight of its employees. The employees, all former TekWorks employees, were hired by the Company in May and June of 2011 to work in the Company s San Diego communications operations. TekWorks claims against the Company and each of the individual defendants include misappropriation of trade secrets, intentional interference with contractual relations and unfair competition under the California Business & Professions Code. In addition to the claims against all defendants, TekWorks claims against the eight individual employees also include breach of contract and the duty of loyalty, as well as claims against a single employee for breach of fiduciary duty and conversion.

Following mediation, the parties settled this matter on August 23, 2012. The settlement terms include a $1,250 payment by the Company to TekWorks in exchange for the Company s receipt of certain business assets from TekWorks, mutual releases and non-competition agreements with respect to certain customers of each party. Each party has also agreed to bear its own costs and fees incurred in connection with this matter.

In June 2012, the Company recorded a reserve in the amount of $1,230 related to this matter. While the Company remains convinced that its potential exposure in this matter if the case were to have proceeded to trial was substantially less than the settlement amount, the Company believes that settlement of this matter was in the best interest of the Company and its shareholders, given the anticipated expense of litigation and the loss of productivity and uncertainty associated with taking the matter to trial.

Hamilton Wage and Hour

On August 29, 2012, Integrated Electrical Services, Inc. was served with a wage and hour suit seeking class action certification in the United States District Court for the Eastern District of Texas, Beaumont Division. On December 4, 2012, the Company was served with a second lawsuit alleging the same claims, but with different named plaintiffs. Both cases are among several filed by the plaintiffs attorney against contractors working in the Motiva plant in Port Arthur, Texas, on various projects over the last several years. The claims are based on alleged failure to compensate for time spent bussing to and from the plant, donning safety wear and other activities. It does not appear the Company will face significant exposure for any unpaid wages. In a separate earlier case based on the same allegations, a federal judge has ruled that the time spent traveling on the busses is not compensable. Our investigation indicates that all other activities alleged either were inapplicable to the Company s employees or took place during times for which the Company s employees were compensated. We have filed responsive pleadings and following initial discovery, will seek dismissal of the case through summary judgment. As of September 30, 2012, 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 retain the risk for workers compensation, employer s liability, automobile liability, general liability and employee group health claims, resulting from uninsured deductibles per accident or occurrence which are subject

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

to annual aggregate limits. Our general liability program provides coverage for bodily injury and property damage. Losses up to the deductible amounts are accrued based upon our known claims incurred and an estimate of claims incurred but not reported. As a result, many of our claims are effectively self-insured. Many claims against our insurance are in the form of litigation. At September 30, 2012, we had $5,229 accrued for insurance liabilities. We are also subject to construction defect liabilities, primarily within our Residential segment. As of September 30, 2012, we had reserved $756 for these claims.

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral. This 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 September 30, 2012, $6,218 of our outstanding letters of credit were utilized to collateralize our insurance program.

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 September 30, 2012, the estimated cost to complete our bonded projects was approximately $67,177. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. On May 7, 2010 we entered into a new surety agreement. We believe the bonding capacity presently provided by our current sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future. As of September 30, 2012, we had cash totaling $1.0 million to collateralize our obligations to certain of our previous sureties (as is included in Other Non-Current Assets in our Consolidated Balance Sheet). Posting letters of credit in favor of our sureties reduces the borrowing availability under our 2012 Credit Facility.

Other Commitments and Contingencies

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 September 30, 2012, $630 of our outstanding letters of credit were to collateralize our vendors.

On January 9, 2012, we entered into a settlement agreement with regard to $2,000 of collateral held by a surety who previously issued construction payment and performance bonds for us. The agreement called for a total

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

settlement of $2,200 to be paid in monthly installments through February 2013. In the event of default, we are entitled to file and execute upon an agreed judgment in our favor in the amount of $2,450. As of September 30, 2012, we have received payments of $175, which is not in accordance with the payment plan. On August 7, 2012, we reached an amended agreement with the surety and did not file the agreed judgment. The amended agreement provides for additional collateral and calls for the total settlement amount of $2,025 ($2,200 less the $175 already received) to be paid in monthly installments beginning September 30, 2012 through July 2014 with an interest rate of 12%. The terms of the agreed judgment remain the same. Collection of this debt is deemed probable, but there is a risk of loss ranging from $0 to $1,725, the recorded value as of the filing of this annual report on Form 10-K. While the surety failed to make timely payments on the first two payment dates under the amended settlement agreement, the surety ultimately made the payments prior to a payment default, first through an amendment of terms adjusting the payment schedule to begin in October 2012 at a higher monthly rate and then, for the second payment, by making the payment during the specified cure period under the settlement agreement. To date, we have made no adjustment to the outstanding receivable balance, which was $1,825 as of September 30, 2012, and, in any event, intend to aggressively pursue full payment. In the event the surety breaches the agreement and fails to make payment to us, we intend to file the agreed judgment in the amount of $2,450, less payment made to the date of such filing, which potentially would result in additional income of $450.

Between October 2004 and September 2005, we sold all or substantially all of the assets of certain of our wholly-owned subsidiaries. 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. 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 September 30, 2012, we had no such open purchase commitments.

17. DISCONTINUED OPERATIONS

In 2011, we initiated the closure of all or portions of our Commercial & Industrial and Communications facilities in Arizona, Florida, Iowa, Louisiana, Maryland, Massachusetts, Nevada and Texas. These facilities were a key aspect of our commitment to return the Company to profitability and selected based on their current business prospects and the extended time frame needed to return the facilities to a profitable position. From the time of identification through September 30, 2012 we have sub-leased or terminated our lease contracts for leased facilities. We have satisfied substantially all of our contracts through either the subcontracting or self-performance. We have substantially concluded the closure of these facilities as of September 30, 2012. Results from operations of these facilities for the years ended September 30, 2012, 2011, and 2010 are presented in our Consolidated Statements of Operations as discontinued operations.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

The components of the results of discontinued operations for these facilities are as follows:

	Years Ended September 30,		
	2012	2011	2010
Revenues	$ 16,279	$ 69,222	$ 80,999
Cost of services	20,941	78,220	79,049
Gross profit	(4,662)	(8,998)	1,950
Selling, general and administrative	2,557	5,536	10,627
Loss (gain) on sale of assets	769	(28)	(47)
Restructuring charge	1,170	3,785	
Other (income) expense		(3)	(91)
Loss from discontinued operations	(9,158)	(18,288)	(8,539)
(Benefit) provision for income taxes	(11)	(26)	5
Net loss from discontinued operations	$ (9,147)	$ (18,262)	$ (8,544)

Included in the Consolidated Balance Sheets at September 30, 2012 and 2011 are the following major classes of assets and liabilities associated with discontinued operations:

	Years Ended September 30,	
	2012	2011
Assets of discontinued operations:		
Current	$ 6,127	$ 21,030
Noncurrent		1,826
Liabilities of discontinued operations:		
Current	$ 3,005	$ 14,268

18. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Quarterly financial information for the years ended September 30, 2012 and 2011, are summarized as follows:

	Fiscal Year Ended September 30, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 108,998	$ 107,608	$ 116,128	$ 123,381
Gross profit	$ 13,193	$ 13,789	$ 14,256	$ 16,814
Net income (loss) from continuing operations	$ 192	$ (1,186)	$ (1,213)	$ (448)
Net loss from discontinued operations	$ (3,913)	$ (2,245)	$ (1,963)	$ (1,026)
Net loss	$ (3,721)	$ (3,431)	$ (3,176)	$ (1,474)
Loss per share from continuing operations:				

Basic	$	0.01	$	(0.08)	$	(0.08)	$	(0.03)
Diluted	$	0.01	$	(0.08)	$	(0.08)	$	(0.03)
Loss per share from discontinued operations:								
Basic	$	(0.27)	$	(0.15)	$	(0.13)	$	(0.07)
Diluted	$	(0.27)	$	(0.15)	$	(0.13)	$	(0.07)
Earnings loss per share:								
Basic	$	(0.26)	$	(0.23)	$	(0.22)	$	(0.10)
Diluted	$	(0.26)	$	(0.23)	$	(0.22)	$	(0.10)

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

The sum of the individual quarterly earnings per share amounts may not agree with year-to-date earnings per share as each period s computation is based on the weighted average number of shares outstanding during the period.

	Fiscal Year Ended September 30, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 91,161	$ 100,033	$ 104,286	$ 110,661
Gross profit	$ 10,603	$ 6,868	$ 12,983	$ 13,929
Net income (loss) from continuing operations	$ (3,353)	$ (9,629)	$ (3,172)	$ (3,406)
Net loss from discontinued operations	$ (946)	$ (502)	$ (8,203)	$ (8,612)
Net loss	$ (4,299)	$ (10,131)	$ (11,375)	$ (12,018)
Loss per share from continuing operations:				
Basic	$ (0.23)	$ (0.66)	$ (0.22)	$ (0.23)
Diluted	$ (0.23)	$ (0.66)	$ (0.22)	$ (0.23)
Loss per share from discontinued operations:				
Basic	$ (0.07)	$ (0.03)	$ (0.57)	$ (0.59)
Diluted	$ (0.07)	$ (0.03)	$ (0.57)	$ (0.59)
Earnings loss per share:				
Basic	$ (0.30)	$ (0.70)	$ (0.78)	$ (0.83)
Diluted	$ (0.30)	$ (0.70)	$ (0.78)	$ (0.83)

The sum of the individual quarterly earnings per share amounts may not agree with year-to-date earnings per share as each period s computation is based on the weighted average number of shares outstanding during the period.

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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

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

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.

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

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

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.

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.

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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.

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

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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.

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

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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.

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

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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 a		