INTEGRATED ELECTRICAL SERVICES INC
Form 10-Q
August 15, 2011

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

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

For the Quarterly Period Ended June 30, 2011

OR

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

For the transition period from__________to__________

Commission File Number 1-13783

Integrated Electrical Services, Inc.

(Exact name of registrant as specified in its charter)

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

4801 Woodway Drive, Suite 200-E, Houston, Texas 77056

(Address of principal executive offices and ZIP code)

Registrant s telephone number, including area code: (713) 860-1500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

The number of shares outstanding as of August 15, 2011 of the issuer s common stock was 14,938,416

INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES
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DEFINITIONS

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

difficulty in fulfilling the covenant terms of our credit facilities;

increased cost of surety bonds affecting margins on work and the potential for our surety providers to refuse bonding or require additional collateral at their discretion;

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

You should understand that the foregoing, as well as other risk factors discussed in our annual report on Form 10-K for the year ended September 30, 2010, could cause future outcomes to differ materially from those experienced previously or from those expressed in this quarterly report and our aforementioned annual report on Form 10-K. We undertake no obligation to publicly update or revise information concerning our restructuring efforts, borrowing availability, cash position or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this quarterly report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties, and risks described herein.

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

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

	June 30, 2011 (Unaudited)	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 23,039	$ 32,924
Accounts receivable:		
Trade, net of allowance of $2,308 and $3,360, respectively	85,749	88,252
Retainage	19,845	17,083
Inventories	6,203	12,682
Costs and estimated earnings in excess of billings on uncompleted contracts	12,038	12,566
Prepaid expenses and other current assets	4,600	5,449
Total current assets	151,474	168,956
LONG-TERM ASSETS		
LONG TERM RECEIVABLES, net of allowance of $64 and $77, respectively	235	440
PROPERTY AND EQUIPMENT, net	12,097	19,846
GOODWILL	3,981	3,981
OTHER NON-CURRENT ASSETS, net	8,895	11,882
Total assets	$ 176,682	$ 205,105
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 265	$ 808
Accounts payable and accrued expenses	67,127	67,799
Billings in excess of costs and estimated earnings on uncompleted contracts	12,644	17,109
Total current liabilities	80,036	85,716
LONG-TERM DEBT, net of current maturities	10,346	10,448
LONG-TERM DEFERRED TAX LIABILITY	1,046	1,046
OTHER NON-CURRENT LIABILITIES	6,022	6,314
Total liabilities	97,450	103,524
STOCKHOLDERS EQUITY:		

Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued and outstanding				
Common stock, $0.01 par value, 100,000,000 shares authorized; 15,407,802 and 15,407,802 shares issued and 14,838,416 and 14,773,904 outstanding, respectively		154		154
Treasury stock, at cost, 569,386 and 633,898 shares, respectively		(7,081)		(13,677)
Additional paid-in capital		165,531		171,510
Accumulated other comprehensive income				(88)
Retained deficit		(79,372)		(56,318)
Total stockholders equity		79,232		101,581
Total liabilities and stockholders equity	$	176,682	$	205,105

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

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

	Three Months Ended June 30, 2011 (Unaudited)	Three Months Ended June 30, 2010 (Unaudited)
Revenues	$ 123,189	$ 121,405
Cost of services	113,651	106,328
Gross profit	9,538	15,077
Selling, general and administrative expenses	17,412	21,098
Loss (gain) on sale of assets	136	(113)
Restructuring charges	1,667	
Loss from operations	(9,677)	(5,908)
Interest and other:		
Interest expense	571	784
Interest income	(13)	(92)
Other income, net	21	55
Interest and other expense, net	579	747
Loss from operations before income taxes	(10,256)	(6,655)
Benefit for income taxes	(91)	(98)
Net loss	$ (10,165)	$ (6,557)
Loss per share		
Basic	$ (0.70)	$ (0.45)
Diluted	$ (0.70)	$ (0.45)
Shares used in the computation of loss per share (Note 5):		
Basic	14,491,966	14,425,119
Diluted	14,491,966	14,425,119

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

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

	Nine Months Ended June 30, 2011 (Unaudited)	Nine Months Ended June 30, 2010 (Unaudited)
Revenues	$ 355,163	$ 349,272
Cost of services	329,097	300,675
Gross profit	26,066	48,597
Selling, general and administrative expenses	48,766	66,075
(Gain) loss on sale of assets	(6,679)	(165)
Asset Impairment	3,551	
Restructuring charges	1,667	763
Loss from operations	(21,239)	(18,076)
Interest and other:		
Interest expense	1,746	2,869
Interest income	(62)	(208)
Other income, net	(3)	(172)
Interest and other expense, net	1,681	2,489
Loss from operations before income taxes	(22,920)	(20,565)
Provision for income taxes	135	28
Net loss	$ (23,055)	$ (20,593)
Loss per share		
Basic	$ (1.59)	$ (1.43)
Diluted	$ (1.59)	$ (1.43)
Shares used in the computation of loss per share (Note 5):		
Basic	14,472,441	14,403,925
Diluted	14,472,441	14,403,925

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

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

	Nine Months Ended June 30, 2011 (Unaudited)	Nine Months Ended June 30, 2010 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (23,055)	$ (20,593)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	(1,052)	6,686
Deferred financing cost amortization	253	223
Depreciation and amortization	2,761	4,014
Loss (gain) on sale of assets	84	(165)
Asset Impairment	3,551	
Gain on sale of business unit	(6,763)	
Non-cash compensation expense	682	1,071
Equity in (gains) losses of investment	88	
Deferred income tax benefit	(32)	
Changes in operating assets and liabilities		
Accounts receivable	(4,208)	20,726
Inventories	1,809	324
Costs and estimated earnings in excess of billings	146	966
Prepaid expenses and other current assets	485	1,044
Other non-current assets	3,201	41
Accounts payable and accrued expenses	2,789	(20,068)
Billings in excess of costs and estimated earnings	(4,407)	(9,740)
Other non-current liabilities		(895)
Net cash used in operations	(23,668)	(16,366)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,103)	(536)
Proceeds from sales of property and equipment		246
Proceeds from sales of facilities	16,546	
Distribution from unconsolidated affiliates	57	393
Net cash provided by (used in) investing activities	14,500	103
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of debt		753
Repayments of debt	(652)	(17,542)
Purchase of treasury stock		(172)
Shares withheld for Taxes	(65)	(225)
Net cash used in financing activities	(717)	(17,186)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,885)	(33,449)

CASH AND CASH EQUIVALENTS, beginning of period		32,924		64,174
CASH AND CASH EQUIVALENTS, end of period	$	23,039	$	30,725
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$	1,499	$	3,334
Cash paid for income taxes	$	247	$	284

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

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INTEGRATED ELECTRICAL SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (ALL DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS) (UNAUDITED)

1. BUSINESS

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

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

CONTROLLING SHAREHOLDER

At June 30, 2011, Tontine Capital Partners, L.P. together with its affiliates (Tontine), was the controlling shareholder of the Company s common stock. Accordingly, Tontine has the ability to exercise significant control of our affairs, including the election of directors and any action requiring the approval of shareholders, including the approval of any potential merger or sale of all or substantially all assets or divisions of the Company, or the Company itself. In its most recent amended Schedule 13D, Tontine stated that it has no current plans to make any material change in the Company s business or corporate structure. For a more complete discussion on our relationship with Tontine, please refer to Note 2, Controlling Shareholder to these Condensed Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the financial position as of, and the results of operations for, the periods presented. All adjustments are considered to be normal and recurring unless otherwise described herein. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. During interim periods, we follow the same accounting policies disclosed in our annual report on Form 10-K for the year ended September 30, 2010. Please refer to the *Notes to Consolidated Financial Statements* in our annual report on Form 10-K for the year ended September 30, 2010, when reviewing our interim financial results set forth herein.

RECLASSIFICATIONS

In connection with a change in reportable segments, certain prior period amounts have been reclassified to conform to the current year presentation of our segments with no effect on net income (loss) or retained deficit. Specifically, our

Communications segment has been separated from our Commercial & Industrial segment. For additional information, please refer to Note 6, Operating Segments to these Condensed Consolidated Financial Statements.

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

SALES OF FACILITIES

Sale of Non-Strategic Manufacturing Facility

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

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

The purchase price of $10,690 was adjusted to reflect variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer.

The transaction was completed on December 10, 2010 at which time we recognized a gain of $6,763.

Sale of Non-Core Electrical Distribution Facility

On February 28, 2011, Key Electrical Supply, Inc, a wholly owned subsidiary of the Company (Seller) and Elliot Electric Supply, Inc, a Texas corporation, (Buyer), executed an Asset Purchase Agreement (the Agreement) providing for the sale of substantially all the assets and assumption of certain liabilities of a non-core electrical distribution facility engaged in distributing wiring, lighting, electrical distribution, power control and generators for residential and commercial applications.

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, certain receivables, rights to the Key Electrical Supply, Inc name, business records relating to pre-closing matters, which are required by law to be retained by Seller, insurance policies, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain vendor contracts and financing notes and leases as well as accounts and trade payables arising in the ordinary course of business other than inter-company accounts payable.

The purchase price of $6,676 was adjusted to reflect variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). The Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. The gain on this transaction was immaterial.

REVENUE RECOGNITION

As of June 30, 2011 the Company had an aggregate of $3,815 of revenues associated with three contract claims. The aggregate amount of revenues recorded in connection with contract claims at June 30, 2010 was not material. We believe these revenues are collectible, with some risk associated. They are in various stages of litigation and will take time to reach resolution.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

nature.

We estimate that the fair value of the Tontine Term Loan is $10,565 based on comparable debt instruments at June 30, 2011. For additional information, please refer to Note 4, Debt and Liquidity *The Tontine Capital Partners Term Loan* to these Condensed

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

Consolidated Financial Statements.

We estimate that the fair value of our investment in EnerTech is $1,606 at June 30, 2011. For additional information, please refer to Note 8, Securities and Equity Investments *Investment in EnerTech Capital Partners II L.P.* to these Condensed Consolidated Financial Statements.

ASSET IMPAIRMENT

During the first quarter of our 2011 fiscal year, the Company recorded a pretax non-cash asset impairment charge of $3,551 related to internally-developed capitalized software. The Company ceased use of the software in December, 2010. As a result, the software has a fair value of zero. The charge of $3,551 was recorded separately in the accompanying consolidated statements of operations as a component of loss from operations.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities, disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are primarily used in our revenue recognition of construction in progress, fair value assumptions in analyzing goodwill, investments, intangible assets and long-lived asset impairments and adjustments, allowance for doubtful accounts receivable, stock-based compensation, reserves for legal matters, assumptions regarding estimated costs to exit certain divisions, realizability of deferred tax assets, and self-insured claims liabilities and related reserves.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Results of operations from our Residential construction segment are more seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. The Communications and Commercial & Industrial segments of our business are less subject to seasonal trends, as 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.

SUBSEQUENT EVENTS

We have reviewed subsequent events through the date of filing.

2. CONTROLLING SHAREHOLDER

On June 30, 2011, James M. Lindstrom, an affiliate of Tontine and Chairman of the Company s Board of Directors since February 2011, began serving as Interim Chief Executive Officer and President of the Company. While serving as Interim Chief Executive Officer and President, Mr. Lindstrom has the ability to affect the composition of the Company s management and influence the business operations of the Company or extraordinary transactions outside the normal course of the Company s business.

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

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

On April 30, 2010, we prepaid $15,000 of the original $25,000 principal outstanding on the Tontine Term Loan; accordingly $10,000 remains outstanding under the Tontine Term Loan as of June 30, 2011.

3. STRATEGIC ACTIONS

2011 Restructuring Plan

During the second quarter of our 2011 fiscal year, the Company determined that certain underperforming facilities within our Commercial & Industrial operations will be either sold or closed during the next six to twelve months (the 2011 Restructuring Plan). This is one part of management s overall plan to return the Company to profitability. The facilities directly affected by this decision are in several locations throughout the country, including Arizona, Florida, Iowa, Massachusetts, Nevada and Texas. These facilities were selected due to current business prospects and the extended time frame needed to return to a profitable position. We expect that closure costs could range from $4,500 to $5,500 in the aggregate. Closure costs associated with the 2011 Restructuring Plan would include equipment and facility lease termination expenses, incremental management consulting expenses and severance costs for employees. The Company is in the process of winding down these facilities. As the Company concludes the wind-down and closure process for each of these facilities, their respective results of operations will be reclassified and presented within future statements of operations as Discontinued Operations. US GAAP does not permit an earlier reclassification. Restructuring expenses for the three and nine months ended June 30, 2011 in respect of the 2011 Restructuring Plan were comprised of severance costs and external consulting and management services and totaled $1,667. At June 30, 2011 the estimated costs to complete the ninety-five projects remaining totaled $22,493; of which $8,530 have been subcontracted to other electrical contractors, and $7,527 have been assigned to other electrical contractors, leaving approximately $6,436 of contracts for which we will continue to execute. With respect to the assigned contracts we have obtained acknowledgement of our release responsibility on all but one contract, which we expect to receive by September 30, 2011. We expect the majority of the retained backlog of $6,436 to be completed by September 30, 2011. For the three and nine months ended June 30, 2011, these facilities had the following results:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Revenues	$ 11,147	$ 13,490
Gross profit (loss)	(4,300)	(177)
Selling, general, & administrative expenses	1,900	1,870
Restructuring	1,667	
Loss / (gain) from sale of assets	(24)	(36)
Loss from operations	$ (7,843)	$ (2,011)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Revenues	$ 36,758	$ 50,588
Gross profit (loss)	(5,611)	1,889
Selling, general, & administrative expenses	1,133	8,467
Restructuring	1,667	
Loss / (gain) from sale of assets	(40)	(38)

Loss from operations	$	(8,371)	$	(6,540)
Other data:				
Working capital	$	8,183	$	17,284
Total assets:	$	19,256	$	23,650

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The following table summarizes the activities related to our restructuring activities by component:

	Severance Charges	Consulting / Other Charges	Total
Restructuring liability at September 30, 2010	$	$	$
Restructuring charges incurred	749	918	1,667
Cash payments made	(16)	(792)	(808)
Restructuring liability at June 30, 2011	$ 733	$ 126	$ 859

2009 Restructuring Plan

In the first three months of our 2009 fiscal year, we began a restructuring program (the 2009 Restructuring Plan) that was designed to consolidate operations within our three segments at that time. Our plan was to streamline local project and support operations, which were managed through regional operating centers, and to capitalize on the investments we had made in the previous year to further leverage our resources. In addition, as a result of the continuing significant effects of the recession, during the third quarter of fiscal year 2009, we implemented a more expansive cost reduction program, by further reducing administrative personnel, primarily in the corporate office, and consolidating our Commercial and Industrial administrative functions into one shared service center. The 2009 Restructuring Plan was completed in our 2010 fiscal year. Costs incurred with respect to the 2009 Restructuring Plan for the three months and nine months ended June 30, 2010 are reflected within the Operating Segments, please refer to Note 6 Operating Segments.

4. DEBT AND LIQUIDITY

Debt consists of the following:

	June 30, 2011	**September 30, 2010**
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	$ 10,000	$ 10,000
Insurance Financing Agreements	72	653
Capital leases	539	603
Total debt	10,611	11,256
Less Short-term debt and current maturities of long-term debt	(265)	(808)
Total long-term debt	$ 10,346	$ 10,448

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Future payments on debt at June 30, 2011 are as follows:

	Capital Leases	Term Debt	Total
2011	$ 79	$ 67	$ 146
2012	317	4	321
2013	317	10,001	10,318
2014	27		27
2015			
Thereafter			
Less: Imputed Interest	(201)		(201)
Total	$ 539	$ 10,072	$ 10,611

For the three months ended June 30, 2011 and 2010, we incurred interest expense of $571 and $784, respectively. For the nine months ended June 30, 2011 and 2010, we incurred interest expense of $1,746 and $2,869, respectively.

The Revolving Credit Facility

On May 12, 2006, we entered into a Loan and Security Agreement (the Loan and Security Agreement), for a revolving credit facility (the Revolving Credit Facility) with Bank of America, N.A. and certain other lenders. On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement. Under the terms of the amended Revolving Credit Facility, the size of the facility remains at $60,000 and the maturity date has been extended to May 12, 2012. In connection with the amendment, we incurred an amendment fee of $225 and legal fees of $53, which are being amortized over 24 months.

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

Borrowings under the Revolving Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventories. Under the terms of the Revolving Credit Facility, in effect as of June 30, 2011, interest for loans and letter of credit fees is based on our Total Liquidity, which is calculated for any given period as the sum of the average daily availability for such period plus the average daily unrestricted cash on hand for such period as follows:

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

At June 30, 2011, we had $17,697 available to us under the Revolving Credit Facility, based on a borrowing base of $25,808, outstanding letters of credit of $8,111, and no outstanding borrowings.

As of June 30, 2011, we were subject to the financial covenant under the Revolving Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability is less than $25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least $25,000 for a period of 60 consecutive days. As of June 30, 2011, our Total Liquidity was in excess of $25,000 for the previous 60 days. Had our Total Liquidity been less than $25,000 for the previous 60 days at June 30, 2011, we would not have met the 1.0:1.0 fixed charge coverage ratio test.

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At June 30, 2011, our Total Liquidity was $40,736. For the nine months ended June 30, 2011, we paid no interest for loans under the Revolving Credit Facility and a weighted average interest rate, including fronting fees, of 3.50% for letters of credit. In addition, we are charged monthly in arrears (1) an unused commitment fee of 0.50%, and (2) certain other fees and charges as specified in the Loan and Security Agreement, as amended. Finally, the Revolving Credit Facility would have been subject to termination charges of 0.25% of the total borrowing capacity plus $50. We intend to enter into discussions with our existing bank group to extend the maturity date of this facility although there can be no assurance that we will be successful.

The Tontine Term Loan

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

5. EARNINGS PER SHARE

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

The tables that follow reconcile the components of the basic and diluted earnings per share for the three and nine months ended June 30, 2011 and 2010:

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	Three Months Ended June 30,	
	2011	**2010**
Numerator:		
Net loss attributable to common shareholders	$ (10,165)	$ (6,557)
Net income attributable to restricted shareholders		
Net loss	$ (10,165)	$ (6,557)
Denominator:		
Weighted average common shares outstanding basic	14,491,966	14,425,119
Effect of dilutive stock options and non-vested restricted stock		
Weighted average common and common equivalent shares outstanding diluted	14,491,966	14,425,119
Loss per share		
Basic	$ (0.70)	$ (0.45)
Diluted	$ (0.70)	$ (0.45)

	Nine Months Ended June 30,	
	2011	**2010**
Numerator:		
Net loss attributable to common shareholders	$ (23,055)	$ (20,593)
Net income attributable to restricted shareholders		
Net loss	$ (23,055)	$ (20,593)
Denominator:		
Weighted average common shares outstanding basic	14,472,441	14,403,925
Effect of dilutive stock options and non-vested restricted stock		
Weighted average common and common equivalent shares outstanding diluted	14,472,441	14,403,925

Loss per share				
Basic	$	(1.59)	$	(1.43)
Diluted	$	(1.59)	$	(1.43)

6. OPERATING SEGMENTS

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

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results for the purposes of allocating resources and assessing performance. The Company s CODM is its Chief Executive Officer. Prior period disclosures have been adjusted to reflect the change in reportable segments.

The Communications segment consists of low voltage installation, design, planning and maintenance for data centers and information technology infrastructure. The segment s customers are primarily in the information technology and commercial industries.

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, health care facilities, educational facilities, military installations, airports, information technology infrastructure, manufacturing and distribution centers, water treatment facilities, refineries, petrochemical and power plants, and alternative energy facilities.

We also have a corporate office and shared service centers that provide general and administrative as well as support services to our three operating segments. We allocate certain corporate selling, general and administrative costs across our segments to more accurately reflect the costs associated with operating each segment. The Company allocates the costs of these services to its segments based upon expected revenues at the beginning of the year.

The significant accounting policies of the segments are the same as those described in the summary of significant accounting policies, set forth in Note 2 to our Consolidated Financial Statements included in our annual report on Form 10-K for the year ended September 30, 2010. Transactions between segments are eliminated in consolidation.

Segment information for the three and nine months ended June 30, 2011 and 2010 is as follows:

	Three Months Ended June 30, 2011				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 23,498	$ 30,111	$ 69,580	$	$ 123,189
Cost of services	20,773	25,121	67,757		113,651
Gross profit	2,725	4,990	1,823		9,538
Selling, general and administrative	2,563	4,503	7,819	2,527	17,412
Loss (gain) on sale of assets	1	127	(25)	33	136
Restructuring charge			1,667		1,667
Income (loss) from operations	$ 161	$ 360	$ (7,638)	$ (2,560)	$ (9,677)
Other data:					
Depreciation and amortization expense	$ 20	$ 67	$ 160	$ 504	$ 751
Capital expenditures	$ 378	$ 18	$ 5	$ 897	$ 1,298
Total assets	$ 23,730	$ 22,163	$ 80,017	$ 50,772	$ 176,682

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	Three Months Ended June 30, 2010				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 22,126	$ 31,489	$ 67,790	$	$ 121,405
Cost of services	18,325	25,152	62,852		106,328
Gross profit	3,801	6,337	4,939		15,077
Selling, general and administrative	1,761	6,086	9,714	3,537	21,098
Loss (gain) on sale of assets	(7)	29	(61)	(74)	(113)
Restructuring charge					
Income (loss) from operations	$ 2,047	$ 222	$ (4,714)	$ (3,463)	$ (5,908)
Other data:					
Depreciation and amortization expense	$ 33	$ 144	$ 287	$ 756	$ 1,220
Capital expenditures	$	$ 5	$ 29	$	$ 34
Total assets	$ 23,113	$ 31,368	$ 78,276	$ 68,469	$ 201,226

	Nine Months Ended June 30, 2011				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 66,787	$ 82,521	$ 205,855	$	$ 355,163
Cost of services	58,403	69,370	201,324		329,097
Gross profit	8,384	13,151	4,531		26,066
Selling, general and administrative	7,177	13,789	19,223	8,577	48,766
Loss (gain) on sale of assets	1	58	(74)	(6,664)	(6,679)
Asset Impairment				3,551	3,551
Restructuring charge			1,667		1,667
Income (loss) from operations	$ 1,206	$ (696)	$ (16,285)	$ (5,464)	$ (21,239)
Other data:					
Depreciation and amortization expense	$ 68	$ 250	$ 553	$ 1,890	$ 2,761

Capital expenditures	$ 378	$ 92	$ 395	$ 1,189	$ 2,054
Total assets	$ 23,730	$ 22,163	$ 80,017	$ 50,772	$ 176,682

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	Nine Months Ended June 30, 2010				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 57,179	$ 88,549	$ 203,544	$	$ 349,272
Cost of services	46,632	69,108	184,935		300,675
Gross profit	10,547	19,441	18,609		48,597
Selling, general and administrative	5,466	18,635	30,535	11,439	66,075
Loss (gain) on sale of assets	(8)	26	(109)	(74)	(165)
Restructuring charge	16		698	49	763
Income (loss) from operations	$ 5,073	$ 780	$ (12,515)	$ (11,414)	$ (18,076)
Other data:					
Depreciation and amortization expense	$ 94	$ 541	$ 1,079	$ 2,300	$ 4,014
Capital expenditures	$ 25	$ 83	$ 220	$ 208	$ 536
Total assets	$ 23,113	$ 31,368	$ 78,276	$ 68,469	$ 201,226

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

7. STOCKHOLDERS EQUITY

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

Treasury Stock

During the nine months ended June 30, 2011, we repurchased 18,846 shares of common stock from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Plan, 204,000 shares of restricted stock were issued from treasury stock to employees and 130,258 unvested shares of restricted stock were forfeited by former employees and returned to treasury stock. Additionally, 9,616 phantom stock units granted to members of the Board of Directors vested, triggering an issuance of 9,616 unrestricted shares from the balance held in treasury shares.

During the nine months ended June 30, 2010, we repurchased 27,622 shares of common stock from our employees to satisfy minimum tax withholding requirements upon the vesting of restricted stock issued under the 2006 Plan, 12,886 were issued from treasury stock to employees and 38,000 unvested shares of restricted stock were forfeited by former employees and returned to treasury stock.

Restricted Stock

We granted 204,000 shares of restricted stock to employees during the nine months ended June 30, 2011, of which 8,900 have vested and 53,100 have been forfeited as of June 30, 2011. These restricted shares, which were granted at a prices ranging from $3.49 to $3.51 per share, will vest on an annual pro-rata basis each December, from 2011 through 2013.

During the nine months ended June 30, 2011 and 2010, we recognized $566 and $977, respectively, in compensation expense related to all restricted stock awards. As of June 30, 2011, the unamortized compensation cost related to outstanding unvested restricted stock was $622. We expect to recognize $99 in compensation expense related to these awards during the remaining three months of our 2011 fiscal year, and $523 thereafter.

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All the restricted shares granted under the 2006 Plan participate in dividends, if any, issued to common shareholders.

Stock Options

Our determination of the fair value of share-based payment awards on the date of grant using a binomial 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.

During the nine months ended June 30, 2011 and 2010, we granted no stock options, and 58,500 options were forfeited. During the nine months ended June 30, 2011 and 2010, we recognized $17 and $94, respectively, in compensation expense related to previously granted stock options.

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

	Shares	Weighted Average Exercise Price
Outstanding, September 30, 2010	158,500	$ 17
Options granted		
Exercised		
Expired		
Forfeited	(58,500)	
Outstanding, June 30, 2011	100,000	$ 17
Exercisable, June 30, 2011	100,000	$ 17

The following table summarizes all options outstanding and exercisable at June 30, 2011:

Range of Exercise Prices	Outstanding as of June 30, 2011	Remaining Contractual Life in Years	Weighted-Average Exercise Price	Exercisable as of June 30, 2011	Weighted-Average Exercise Price
17.36	100,000		$ 17	100,000	$ 17

Upon exercise of stock options, it is our policy to first issue shares from treasury stock, then to issue new shares. Unexercised options expire at September 29, 2011.

8. SECURITIES AND EQUITY INVESTMENTS

Investment in EnerTech Capital Partners II L.P.

Our investment in EnerTech was approximately 2% of the overall ownership in EnerTech at June 30, 2011 and September 30, 2010. As such, we accounted for this investment using the cost method of accounting.

EnerTech s investment portfolio periodically results in unrealized losses reflecting a possible, other-than temporary impairment of our investment. If facts arise that lead us to determine that any unrealized losses are not temporary, we would write-down our investment in EnerTech through a charge to other expense in the period of such determination. The carrying value of our investment in EnerTech at June 30, 2011 and September 30, 2010 was $1,976 and $2,005,

respectively, and is currently recorded as a component of Other Non-Current Assets in our Consolidated Balance Sheets. The following table presents the reconciliation of the carrying value and unrealized gains (losses) to the fair value of the investment in EnerTech as of June 30, 2011 and September 30, 2010:

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	June 30, 2011	September 30, 2010
Carrying value	$ 1,976	$ 2,005
Unrealized gains (losses)	(370)	(179)
Fair value	$ 1,606	$ 1,826

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

Arbinet Corporation

On May 15, 2006, we received a distribution from our investment in EnerTech of 32,967 shares in Arbinet Corporation (Arbinet), formerly Arbinet-thexchange Inc. On June 11, 2010, Arbinet consummated a 1-for-4 reverse common stock split. As a result of this transaction, we held 8,241 shares of Arbinet common stock. On November 22, 2010, we sold our shares of Arbinet common stock for $57, net of commissions and other fees. As a result of this sale, we recognized a $96 loss in Other Expense in our Consolidated Statements of Operation, which was previously recorded as an unrealized loss included in other comprehensive income.

The amount of unrealized holding losses included in other comprehensive income at June 30, 2011 and September 30, 2010 is $0 and $88, respectively. Both the carrying and market value of the investment at June 30, 2011 and September 30, 2010 were $0 and $60, respectively.

9. EMPLOYEE BENEFIT PLANS

Executive Savings Plan

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

On February 13, 2009, we suspended Company matching cash contributions to employee s contributions due to the significant impact the economic recession has had on the Company s financial performance. As such, there have been no contributions by us to the Executive Savings Plan for the three and nine months ended June 30, 2011 and 2010.

10. FAIR VALUE MEASUREMENTS

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

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

exchange. The use of different market assumptions and/or estimation methods could have a material effect on the estimated fair value.

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Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011, are summarized in the following table by the type of inputs applicable to the fair value measurements:

	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market accounts	$ 4,033	$ 4,033	$	$
Executive Savings Plan assets	632	632		
Executive Savings Plan liabilities	(594)	(594)		
Total	$ 4,071	$ 4,071	$	$

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

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

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

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

11. COMMITMENTS AND CONTINGENCIES

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

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

Centerpoint Project

We were a co-plaintiff in a breach of contract and mechanics lien foreclosure action in Maricopa County, Arizona superior court. The defendants were Centerpoint Construction, LLC and Tempe Land Company, LLC, the general contractor and owner, respectively, of a condominium and retail development project in Tempe, Arizona. In December 2008, Tempe Land Company, LLC filed for Chapter 11 bankruptcy reorganization in the U.S. Bankruptcy Court in Phoenix, Arizona. The principal amount of our claim was approximately $3,992, exclusive of interest, attorneys fees and costs. In March 2009, we transferred $3,992 of trade accounts receivable to long-term receivable. At the same time, we reserved the costs in excess of billings of $278 associated with this receivable.

In April 2010, the project property was sold at foreclosure to the project lender. In the sale, the project lender acquired the project property subject only to superior encumbrances. The priority of the mechanics lien claims over the project lender s deeds of trust was to be determined at trial, which was anticipated to occur in April 2011.

As a result of the April 2010 foreclosure sale and the uncertainties associated with the outcome of the lawsuit, we determined that there was a reasonable possibility, but not a probability, of collection of our claim. As a result, we

wrote-off the remaining $3,714 long-term receivable.

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In February 2011, we entered into a $2,850 settlement in connection with the breach of contract and mechanics lien foreclosure actions. The $2,850 recovery was recorded in the accompanying consolidated statements of operations as a component of selling, general, and administrative expenses.

Ward Transformer Site

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

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

Based on our investigation to date, there is evidence to support our defense that our subsidiary contributed no PCB contamination to the site. In addition, we have tendered a demand for indemnification to the former owner of our subsidiary that may have transacted business with the facility and are exploring the existence and applicability of insurance policies that could mitigate potential exposure. As of June 30, 2011 and September 30, 2010, we have not recorded a reserve for this matter, as we believe the likelihood of our responsibility for damages is not probable and a potential range of exposure is not estimable.

Insurance

We are subject to large deductibles ranging from $100 to $350 on our property and casualty and worker s compensation insurance policies. As a result, many of our claims are effectively self-insured. Many claims against our insurance are in the form of litigation. At June 30, 2011, we had $5,955 accrued for self-insurance liabilities, including $1,278 for general liability coverage losses. We are also subject to construction defect liabilities, primarily within our Residential segment. We believe the likely range of our potential liability for construction defects is from $250 to $750. As of June 30, 2011, we had reserved $371 for these claims.

Some of our insurance carriers require us to post letters of credit as a means of guaranteeing performance under our policies. If an insurance carrier has reasonable cause to effect payment under a letter of credit, we would be required to reimburse the lenders under our Revolving Credit Facility for such letter of credit. At June 30, 2011, $7,481 of our outstanding letters of credit was used to collateralize our high deductible insurance programs.

Sureties

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.

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

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

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 of June 30, 2011, the estimated cost to complete our bonded projects was approximately $113,644. We believe we have adequate remaining available bonding capacity to meet our current needs; however, the duration, size, and aggregate number of outstanding bonds are subject to the sole discretion of our surety providers at any point in time. There can be no assurance that the current bonding facility will be available to us in the future.

As of June 30, 2011, we utilized cash and accumulated interest thereon (as included in Other Non-Current Assets in our Consolidated Balance Sheet) of $3,985 to collateralize our obligations to our former sureties. On March 14, 2011, a former surety released $2,600 of cash back to the Company. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. On May 7, 2010, we entered into agreements with two primary sureties. We do not have any cash or letters of credit held as collateral by these sureties.

Other Commitments and Contingencies

Between October 2004 and September 2005, we sold all or substantially all of the assets of certain of our wholly-owned subsidiaries. These sales were made to facilitate the business needs and purposes of the organization as a whole. Since we were a consolidator of electrical contracting businesses, often the best candidate to purchase these assets was a previous owner of the assets who usually was still associated with the subsidiary, often as an officer of that subsidiary, or otherwise. To facilitate the desired timing, the sales were made with more than ordinary reliance on the representations of the purchaser who was, in those cases, often the person most familiar with the business sold. As these sales were assets sales, rather than stock sales, we may be required to fulfill obligations that were assigned or sold to others, if the purchaser is unwilling or unable to perform the transferred liabilities. If this were to occur, we would seek reimbursement from the purchasers. These potential liabilities will continue to diminish over time. As of June 30, 2011, all projects transferred have been completed. To date, we have not been required to perform on any projects sold under this divestiture program.

From time to time, we may enter into firm purchase commitments for materials such as copper or aluminum wire which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specific intervals at a fixed price over the term. As of June 30, 2011, we had no such open purchase commitments.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

In 2010, our Communications segment was separated from our Commercial & Industrial segment to form a new operating segment. The decision to report Communications as a separate segment was made as the Company changed its internal reporting structure and the communications business gained greater significance as a percentage of consolidated revenues, gross profit and operating income. Moreover, the Communications segment is a separate and specific part of future strategic growth plans of the Company. We now manage and measure performance of our business in three distinct operating segments: Communications, Residential and Commercial & Industrial. We allocate certain corporate selling, general and administrative costs across our segments to more accurately reflect the costs associated with operating each segment. Transactions between segments are eliminated in consolidation.

SALES OF FACILITIES

Sale of Non-Strategic Manufacturing Facility

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

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, rights to names which include IES , business records relating to pre-closing matters, which are required by law to be retained by Seller, performed contracts and fulfilled purchase orders, insurance policies, non-assignable permits, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain customer contracts, vendor contracts and financing leases as well as accounts and trade payables arising in the ordinary course of business other than inter-company accounts payable. The purchase price of $10.7 million was adjusted to reflect variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. The transaction was completed on December 10, 2010 at which time we recognized a gain of $6.8 million.

Sale of Non-Core Electrical Distribution Business

On February 28, 2011, Key Electrical Supply, Inc, a wholly owned subsidiary of the Company (Seller) and Elliot Electric Supply, Inc, a Texas corporation, (Buyer), executed an Asset Purchase Agreement (the Agreement) providing for the sale of substantially all the assets and assumption of certain liabilities of a non-core electrical distribution business engaged in distributing wiring, lighting, electrical distribution, power control and generators for residential and commercial applications.

Pursuant to the terms of the Agreement assets excluded from the sale include, but are not limited to, cash and cash equivalents, certain receivables, rights to the Key Electrical Supply, Inc name, business records relating to pre-closing matters, which are required by law to be retained by Seller, insurance policies, licenses and software and tax refunds relating to periods ending prior to the closing. Buyer also assumed liabilities and obligations of Seller relating to certain vendor contracts and financing notes and leases as well as accounts and trade payables arising in the ordinary course of business other than inter-company accounts payable.

The purchase price of $6.7 million was adjusted to reflect variances between Historical Working Capital and Closing Working Capital (each as defined in the Agreement). Buyer and Seller are currently in the process of negotiating other elements of Historical Working Capital. Finally, the Agreement contains representations and warranties by Seller and Buyer as well as covenants by Seller, termination provisions and indemnifications by Seller and Buyer. As of June 30, 2011, the gain on this transaction was immaterial.

ASSET IMPAIRMENT

During the first quarter of our 2011 fiscal year, the Company recorded a pretax non-cash asset impairment charge of $3.5 million related to internally-developed capitalized software. The Company ceased use of the software in December, 2010. As a result, the software has a fair value of zero. The charge of $3.5 million was recorded separately in the accompanying consolidated statements of operations as a component of loss from operations.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Results of operations from our Residential construction segment are more seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. The Communications and Commercial & Industrial segments of our business are less subject to seasonal trends, as 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.

RESTRUCTURING PROGRAMS

2011 Restructuring Plan

During the second quarter of our 2011 fiscal year, the Company determined that certain underperforming facilities within our Commercial & Industrial operations will be either sold or closed during the next six to twelve months (the 2011 Restructuring Plan). This is one part of management s overall plan to return the Company to profitability. The facilities directly affected by this decision are in several locations throughout the country, including Arizona, Florida, Iowa, Massachusetts, Nevada and Texas. These facilities were selected due to current business prospects and the extended time frame needed to return these operations to a profitable position. We expect that closure costs could range from $4.5 to $5.5 million. Closure costs associated with the 2011 Restructuring Plan would include equipment and facility lease termination expenses, incremental management consulting expenses and severance costs for employees. The Company is in the process of winding down these facilities. As the Company concludes the wind-down and closure process for each of these facilities, their respective results of operations will be reclassified and presented within future statements of operations as Discontinued Operations. US GAAP does not permit an earlier reclassification. Restructuring expenses for the three and nine months ended June 30, 2011 in respect of the 2011 Restructuring Plan were comprised of severance costs and external consulting and management services and totaled $1.7 million. At June 30, 2011 the estimated costs to complete the ninety-five projects remaining totaled $22.5 million; of which $8.5 million have been subcontracted to other electrical contractors, and $7.5 million have

been assigned to other electrical contractors, leaving approximately $6.5 million of contracts for which we will continue to execute. With respect to the assigned contracts we have obtained acknowledgement of our release responsibility on all but one contract, which we expect to receive by September 30, 2011. We expect the majority of the retained backlog of $6.5 million to be completed by September 30, 2011.

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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 completed in our fiscal year 2010. Details regarding the components of the restructuring charges are described in Part 1. Item 1. Condensed Consolidated Financial Statements Note 3, Strategic Actions of this report, which is incorporated herein by reference.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2011 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2010

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

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Revenues	$ 123.2	100.0%	$ 121.4	100.0%
Cost of services	113.7	92.3%	106.3	87.6%
Gross profit	9.5	7.7%	15.1	12.4%
Selling, general and administrative expenses	17.4	14.1%	21.1	17.4%
Loss (gain) on sale of assets	0.1	0.1%	(0.1)	(0.1)%
Restructuring charges	1.7	1.4%		%
Loss from operations	(9.7)	(7.9)%	(5.9)	(4.9)%
Interest and other expense, net	0.6	0.5%	0.8	0.6%
Loss before income taxes	(10.3)	(8.4)%	(6.7)	(5.5)%
Benefit for income taxes	(0.1)	(0.1)%	(0.1)	(0.1)%
Net loss	$ (10.2)	(8.3)%	$ (6.6)	(5.4)%

Revenues

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Communications	$ 23.5	19.1%	$ 22.1	18.2%
Residential	30.1	24.4%	31.5	25.9%
Commercial & Industrial	69.6	56.5%	67.8	55.8%
Total Consolidated	$ 123.2	100.0%	$ 121.4	100.0%

Consolidated revenues for the three months ended June 30, 2011 were $1.8 million greater than the three months ended June 30, 2010, an increase of 1.5%. While our Communications and Commercial & Industrial segments revenues increased during the three months ended June 30, 2011, compared to the three months ended June 30 2010, revenues for our Residential segment declined during the same period, primarily due to a nationwide decline in single-family construction activity as a result of the challenging economic environment.

Revenues in our Communications segment increased $1.4 million, or 6.3%, during the three months ended June 30, 2011, compared to the three months ended June 30, 2010. This increase is due to an increase in data center projects and increased business from our national accounts.

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Residential segment revenues decreased $1.4 million during the three months ended June 30, 2011; a decrease of 4.4%, compared to the three months ended June 30, 2010. This decrease is primarily attributable to declines in single-family housing construction resulting from the continued effect of high unemployment rates and uncertain economic conditions. The decline in single-family construction was partially offset by an increase in multi-family construction as compared to the prior year period. The increase in multi-family construction was driven by the current economic conditions which have adversely affected the sale of single family houses.
Revenues in our Commercial & Industrial segment increased $1.8 million, or 2.7%, during the three months ended June 30, 2011, compared to the three months ended June 30, 2010.
With respect to the wind-down operations described in the Company s 2011 Restructuring Plan -
Revenues associated with the wind-down facilities described in the 2011 Restructuring Plan totaled $11.2 million, a decrease of 17.0% or $2.3 million during the three months ended June 30, 2011, compared to the three months ended June 30, 2010.

Gross Profit

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Communications	$ 2.7	11.6%	$ 3.8	17.2%
Residential	5.0	16.6%	6.4	20.4%
Commercial & Industrial	1.8	2.6%	4.9	7.3%
Total Consolidated	$ 9.5	7.7%	$ 15.1	12.4%

Our consolidated gross profit for the three months ended June 30, 2011 declined by $5.6 million, or 37.0% compared to consolidated gross profit for the three months ended June 30, 2010. Our overall gross profit as a percentage of revenue decreased to 7.7% during the three months ended June 30, 2011, compared to 12.4% during the three months ended June 30, 2010, primarily due to lower margin construction projects, difficulties in execution on certain projects, and increased costs of copper, steel and fuel. The negative gross margins associated with the wind-down facilities described in the Company s 2011 Restructuring Plan accounted for $4.1 million of this decline. Additionally, we are experiencing increased healthcare benefits and unemployment costs.
Our Communications segment s gross profit decreased $1.1 million during the three months ended June 30, 2011 compared to the three months ended June 30, 2010. The decrease in gross profit is attributed to lower margins on competitively bid projects and increase in material composition of projects.
During the quarter ended June 30, 2011, our Residential segment experienced a $1.4 million reduction in gross profit compared to the three months ended June 30, 2010. Gross margin percentage in the Residential segment declined to 21.9% during the three months ended June 30, 2011. We attribute much of the decline in Residential gross margin to increased competition resulting from the decline in margins for both single-family and multi-family projects in the past year. Additionally, increases in the cost of materials have negatively impacted gross margins.
Our Commercial & Industrial segment s gross profit during the three months ended June 30, 2011 decreased $3.1 million compared to the three months ended June 30, 2010. The continued weak economy and competitive environment continues to adversely affect margins on competitively bid projects. Approximately $4.1 million of this decline is attributable the wind-down operations described in the Company s 2011 Restructuring Plan.
With respect to the wind-down operations described in the Company s 2011 Restructuring Plan -
The negative gross margins associated with the wind-down operations described in the Company s 2011 Restructuring Plan resulted in approximately $4.3 million of negative gross margin during the three months ended June 30, 2011; and $0.2 million of negative

gross margin during the during the three months ended June 30, 2010. The negative gross margins recorded for the wind-down operations described in the Company s 2011 Restructuring Plan are primarily due to higher costs associated with either subcontracting or assigning certain contracts to other electrical subcontractors together with the extensive operating difficulties relating to labor productivity following the notice of the potential sale or closure of these facilities.

Selling, General and Administrative Expenses

	Three Months Ended June 30, 2011		Three Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Communications	$ 2.6	10.9%	$ 1.8	8.0%
Residential	4.5	15.0%	6.1	19.3%
Commercial & Industrial	7.8	11.2%	9.7	14.3%
Corporate	2.5		3.5	
Total Consolidated	$ 17.4	14.1%	$ 21.1	17.4%

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

During the three months ended June 30, 2011, our selling, general and administrative expenses were $17.4 million, a decrease of $3.7 million, or 17.5%, over the three months ended June 30, 2010. During the three months ended June 30, 2011, we incurred severance expenses of $1.3 million associated with the departure of our former CEO. This expense was offset by decreases in Corporate expenses of $2.3 million relating to the Company s cost reduction efforts.

Our Communications segment s selling, general and administrative expenses increased $0.8 million during the three months ended June 30, 2011 compared to the three months ended June 30, 2010. Selling, general and administrative expenses as a percentage of revenues in the Communication segment increased to 10.9% during the three months ended June 30, 2011. The increase in selling, general and administrative expenses is primarily due to higher expenses associated with the our growth initiative relating to the expansion of facilities in Southern California and to a lesser extent, incentive awards for achieving specific performance goals.

During the quarter ended June 30, 2011, our Residential segment experienced a $1.6 million reduction in selling, general and administrative expenses compared to the three months ended June 30, 2010. Selling, general and administrative expenses as a percentage of revenues in the Residential segment declined to 15.0% during the three months ended June 30, 2011. We attribute much of the decline in Residential selling, general and administrative expenses to lower management and incentive compensation expense as the decline in business volume for single-family when compared to the same period in the past year.

Our Commercial & Industrial segment s selling, general and administrative expenses during the three months ended June 30, 2011 decreased $1.9 million compared to the three months ended June 30, 2010. Selling, general and administrative expenses as a percentage of revenues in the Commercial and Industrial segment declined to 12.3% during the three months ended June 30, 2011. The decline in selling, general and administrative expenses is primarily due to a decrease of $1.0 million in bad debt expense and the Company s cost reduction efforts.

With respect to the wind-down operations described in the Company s 2011 Restructuring Plan -

The selling, general and administrative expenses associated with the wind-down facilities described in the Company s 2011 Restructuring Plan totaled approximately $1.9 million during the three months ended June 30, 2011, essentially

unchanged from the three months ended June 30, 2010.

Restructuring Charges

We did not incur any charges attributable to the 2009 Restructuring Plan during the three months ended June 30, 2010. We recognized the following costs associated with the 2011 Restructuring Plan during the three months ended June 30, 2011:

	Three Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
Severance compensation	$ 0.7	$
Consulting and other charges	1.0	
Total restructuring charges	$ 1.7	$

Interest and Other Expense, Net

	Three Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
Interest expense	$ 0.6	$ 0.8
Total interest expense	0.6	0.8
Interest income		(0.1)
Other income (expense)		0.1
Total interest and other expense, net	$ 0.6	$ 0.8

During the three months ended June 30, 2011, we incurred total interest expense of $0.6 million on an average debt balance of $10.0 million for the Tontine Term Loan and a weighted average letter of credit balance of $13.5 million and a weighted average unused line of credit balance of $46.5 million under the Revolving Credit Facility. This compared to total interest expense of $0.8 million for the three months ended June 30, 2010, on a weighted average debt balance of $18.3 million on the Tontine Term Loan and a weighted average letter of credit balance of $20.5 million and a weighted average unused revolving credit facility balance of $39.5 million.

Provision for Income Taxes

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

The income tax benefit of $0.1 million for each of the three months ended June 30, 2011 and 2010 was essentially unchanged. The income tax benefit decreased by a reduction in state tax benefit offset by a decrease in the benefit in the provision for uncertain tax positions.

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RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED JUNE 30, 2011 COMPARED TO THE NINE MONTHS ENDED JUNE 30, 2010

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

	Nine Months Ended June 30, 2011		Nine Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Revenues	$ 355.2	100.0%	$ 349.3	100.0%
Cost of services	329.1	92.7%	300.7	86.1%
Gross profit	26.1	7.3%	48.6	13.9%
Selling, general and administrative expenses	48.8	13.7%	66.1	18.9%
Loss (gain) on sale of assets	(6.7)	(1.9)%	(0.2)	(0.1)%
Asset impairment	3.6	1.0%		%
Restructuring charges	1.7	0.5%	0.8	0.2%
Income (loss) from operations	(21.3)	(6.0)%	(18.1)	(5.2)%
Interest and other expense, net	1.7	0.5%	2.5	0.7%
Loss before income taxes	(23.0)	(6.5)%	(20.6)	(5.9)%
Provision for income taxes	0.1	0.0%		%
Net loss	$ (23.1)	(6.5)%	$ (20.6)	(5.9)%

Revenues

	Nine Months Ended June 30, 2011		Nine Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Communications	$ 66.8	18.8%	$ 57.2	16.4%
Residential	82.5	23.2%	88.5	25.3%
Commercial & Industrial	205.9	58.0%	203.6	58.3%
Total Consolidated	$ 355.2	100.0%	$ 349.3	100.0%

Consolidated revenues for the nine months ended June 30, 2011 were $5.9 million greater than the nine months ended June 30, 2010, an increase of 1.7%. While our Communications and Commercial & Industrial segments revenues increased during the nine months ended June 30, 2011, compared to the nine months ended June 30 2010, revenues for our Residential segment declined during the same period, primarily due to a nationwide decline in construction activity as a result of the challenging economic environment.

Revenues in our Communications segment increased $9.6 million, or 16.8%, during the nine months ended June 30, 2011, compared to the nine months ended June 30, 2010. This increase is due to an increase in data center projects and increased business from our national accounts.

Residential segment revenues decreased $6.0 million during the nine months ended June 30, 2011; a decrease of 6.8%, compared to the nine months ended June 30, 2010. This decrease is primarily attributable to the declines in multi-family housing construction due to a nationwide decline in apartment occupancy rates and increased difficulty in obtaining project financing. This resulted in the deferral of certain projects and the cancellation of other projects. Revenues also declined in single-family construction as a result of the continued effect of high unemployment rates and uncertain economic conditions on new home sales.

Revenues in our Commercial & Industrial segment increased $2.3 million, or 1.1%, during the nine months ended June 30, 2011, compared to the nine months ended June 30, 2010.

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With respect to the wind-down operations described in the Company s 2011 Restructuring Plan -
Revenues associated with the wind-down facilities described in the 2011 Restructuring Plan, totaled $36.6 million, a decrease of 27.7% or $14.0 million during the nine months ended June 30, 2011, compared to the nine months ended June 30, 2010, principally as a result of the decision to close or sell these facilities.

Gross Profit

	Nine Months Ended June 30, 2011		Nine Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Communications	$ 8.4	12.6%	$ 10.6	18.6%
Residential	13.2	15.9%	19.4	22.0%
Commercial & Industrial	4.5	2.2%	18.6	9.1%
Total Consolidated	$ 26.1	7.3%	$ 48.6	13.9%

Our consolidated gross profit for the nine months ended June 30, 2011 declined by $22.5 million, or 46.3% compared to consolidated gross profit for the nine months ended June 30, 2010. Our overall gross profit as a percentage of revenue decreased to 7.3% during the nine months ended June 30, 2011, compared to 13.9% during the nine months ended June 30, 2010, primarily due to lower margin construction projects, difficulties in execution on certain projects, and increased costs of copper, steel and fuel. The negative gross margins associated with the wind-down facilities described in the Company s 2011 Restructuring Plan accounted for $7.5 million of this decline. Additionally, we are experiencing increased healthcare benefits and unemployment costs.

Our Communications segment s gross profit decreased $2.2 million during the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010. The decrease in gross profit is attributed to lower margins on competitively bid projects, and to a lesser extent an increase in the lower margin material components of projects.

During the nine months ended June 30, 2011, our Residential segment experienced a $6.2 million reduction in gross profit compared to the nine months ended June 30, 2010. Gross margin percentage in the Residential segment declined to 15.9% during the nine months ended June 30, 2011. We attribute much of the decline in Residential gross margin to a decrease in higher margin, multi-family construction projects and increases in costs of materials. Additionally, the decline in both single-family and multi-family projects resulted in increased competition which has had a negative impact on gross margins in both types of work.

Our Commercial & Industrial segment s gross profit during the nine months ended June 30, 2011 decreased $14.1 million compared to the nine months ended June 30, 2010. During the nine months ended June 30, 2011, the Commercial & Industrial segment experienced significant execution difficulties on six projects which resulted in a negative impact to gross margin of $4.3 million. Approximately $7.5 million of this decline is attributable the wind-down facilities described in the Company s 2011 Restructuring Plan. The continued weak economy and competitive environment continued to adversely affect margins.

With respect to the wind-down operations described in the Company s 2011 Restructuring Plan -
The negative gross margins associated with the wind-down facilities described in the Company s 2011 Restructuring Plan resulted in approximately $5.6 million of negative gross margin during the nine months ended June 30, 2011; and $1.9 million of gross margin during the nine months ended June 30, 2010. The negative gross margins recorded for the wind-down facilities are primarily due to higher costs associated with either subcontracting or assigning certain contracts to other electrical subcontractors together with the extensive operating difficulties relating to labor productivity following the notice of the potential sale or closure of these facilities.

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Selling, General and Administrative Expenses

	Nine Months Ended June 30, 2011		Nine Months Ended June 30, 2010	
	$	%	$	%
	(Dollars in millions, Percentage of revenues)			
Communications	$ 7.2	10.8%	$ 5.5	9.6%
Residential	13.8	16.7%	18.6	21.0%
Commercial & Industrial	19.2	9.3%	30.5	15.0%
Corporate	8.6		11.4	
Total Consolidated	$ 48.8	13.7%	$ 66.1	18.9%

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

During the nine months ended June 30, 2011, our selling, general and administrative expenses were $48.8 million, a decrease of $17.3 million, or 26.2%, over the nine months ended June 30, 2010. In the nine months ended June 30, 2010, we recorded $3.7 million in bad debt expense related to a long term receivable associated with the Centerpoint project in Arizona and during the nine months ended June 30, 2011, we recovered $2.9 million related to this long-term receivable. This accounted for $6.6 million of the variance between periods. During the nine months ended June 30, 2011, we incurred severance expenses of $1.3 million associated with the departure of our former CEO. The reduction in 2011 expenses was primarily due to the Company s ongoing cost reduction efforts. These efforts included decreases of $4.6 million in employment, occupancy and professional expenses. Marketing and advertising expenses declined by $0.8 million during the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010, and bad debt was reduced $3.2 million, exclusive of the Centerpoint variance, due to charges for aged receivables in the prior year that did not recur.

Our Communications segment s selling, general and administrative expenses increased $1.7 million during the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010. Selling, general and administrative expenses as a percentage of revenues in the Communication segment increased to 10.8% during the nine months ended June 30, 2011. The increase in selling, general and administrative expenses is primarily due to higher expenses associated with our growth initiative relating to the expansion of facilities in Southern California and to a lesser extent, incentive awards for achieving specific performance goals.

During the nine months ended June 30, 2011, our Residential segment experienced a $4.8 million reduction in selling, general and administrative expenses compared to the nine months ended June 30, 2010. Selling, general and administrative expenses as a percentage of revenues in the Residential segment declined to 16.7% during the nine months ended June 30, 2011. We attribute much of the decline in Residential selling, general and administrative expenses to lower management and incentive compensation expense as the decline in business volume for both single-family and multi-family projects when compared to the same period in the past year.

Our Commercial & Industrial segment s selling, general and administrative expenses during the nine months ended June 30, 2011 decreased $11.3 million compared to the nine months ended June 30, 2010. Selling, general and administrative expenses as a percentage of revenues in the Commercial and Industrial segment declined to 9.3% during the nine months ended June 30, 2011. The Arizona project receivable, as described above, accounted for $6.6 million of the variance. Additionally, the decline in selling, general and administrative expenses is primarily due to the Company s cost reduction efforts.

With respect to the wind-down operations described in the Company s 2011 Restructuring Plan -

The selling, general and administrative expenses associated with the wind-down operations described in the Company s 2011 Restructuring Plan accounted for approximately $1.1 million of selling, general and administrative expenses during the nine months ended June 30, 2011; and $8.5 million of selling, general and administrative expenses during the during the nine months ended June 30, 2010. Approximately $3.7 million of the 2010 period expenses related to the write off of the long-term receivable associated with the Centerpoint project in Arizona. After giving effect to the $3.7 million write off in the 2010 period and the recovery of $2.9 million for the Centerpoint project in the first quarter of the 2011 period, selling general and administrative expenses declined principally as a result of the Company s aggressive cost reduction efforts at the wind-down facilities.

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Restructuring Charges

The 2009 Restructuring Plan was completed in March 2010. We incurred charges attributable to the 2009 Restructuring Plan during the nine months ended June 30, 2010 of $0.8 million. We recognized $1.7 million of costs associated with the 2011 Restructuring Plan during the nine months ended June 30, 2011.

	Nine Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
Severance compensation	$ 0.7	$ 0.8
Consulting and other charges	1.0	
Total restructuring charges	$ 1.7	$ 0.8

Interest and Other Expense, Net

	Nine Months Ended June 30,	
	2011	2010
	(Dollars in thousands)	
Interest expense	$ 1.7	$ 2.9
Total interest expense	1.7	2.9
Interest income		(0.2)
Other income (expense)		(0.2)
Total interest and other expense, net	$ 1.7	$ 2.5

During the nine months ended June 30, 2011, we incurred total interest expense of $1.7 million on a weighted average debt balance of $10.0 million for the Tontine Term Loan and a weighted average letter of credit balance of $14.3 million and a weighted average unused line of credit balance of $45.8 million under the Revolving Credit Facility. This compared to total interest expense of $2.9 million for the nine months ended June 30, 2010, on a weighted average debt balance of $23.5 million on the Tontine Term Loan and an average letter of credit balance of $22.8 million and a weighted average unused line of credit balance of $37.4 million.

Provision for Income Taxes

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

The provision for income taxes increased to $0.1 million for the nine months ended June 30, 2011 from $0.0 million for the nine months ended June 30, 2010. The increase is attributable to a decrease in the benefit in the provision for uncertain tax positions.

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Working Capital

	June 30, 2011	September 30, 2010
	(Dollars in millions)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 23.0	$ 32.9
Accounts receivable		
Accounts Receivable, net of Allowance	85.8	88.3
Retainage	19.9	17.1
Inventories	6.2	12.7
Costs and estimated earnings in excess of billings on uncompleted contracts	12.0	12.6
Prepaid expenses and other current assets	4.6	5.4
Total current assets	$ 151.5	$ 169.0
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 0.3	$ 0.8
Accounts payable and accrued expenses	67.1	67.8
Billings in excess of costs and estimated earnings on uncompleted contracts	12.6	17.1
Liabilities from discontinued operations		
Total current liabilities	$ 80.0	$ 85.7
Working capital	$ 71.5	$ 83.3

During the nine months ended June 30, 2011, working capital decreased by $11.8 million from September 30, 2010, reflecting a $17.5 million decrease in current assets and a $5.7 million decrease in current liabilities during the period. During the nine months ended June 30, 2011, current assets decreased by $17.5 million, or 10.4%, to $151.5 million, as compared to $169.0 million as of September 30, 2010. Day s sales outstanding (DSOs) decreased to 77 days as of June 30, 2011 from 83 days as of September 30, 2010. This improvement was driven predominantly by increased collection efforts. Our secured position, resulting from our ability to secure liens against our customers over due receivables, reasonably assures that collection will occur eventually to the extent that our security retains value. In light of the volatility of the current financial markets, we closely monitor the collectability of our receivables.

Sureties

As is common in the construction 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. 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 of June 30, 2011, the estimated cost to complete our bonded projects was approximately $113.6 million, of which $12.9 million relates to the wind-down operations described in the Company s 2011 Restructuring Plan. We believe we have adequate remaining available bonding capacity to meet our current needs; however, the duration, size, and aggregate number of outstanding bonds are subject to the sole discretion of our surety providers at any point in time. There can be no assurance that the current

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bonding facility will be available to us in the future.

As of June 30, 2011, we utilized cash and accumulated interest thereon (as included in Other Non-Current Assets in our Consolidated Balance Sheet) of $4.0 million to collateralize our obligations to two of our former sureties. On March 14, 2011, one of these released $2.6 million of cash back to the Company. We evaluate our bonding requirements on a regular basis, including the terms offered by our sureties. On May 7, 2010, we entered into agreements with two sureties. We do not have any cash or letters of credit held as collateral by these sureties.

The Revolving Credit Facility

On May 12, 2006, we entered into a Loan and Security Agreement (the Loan and Security Agreement), for a revolving credit facility (the Revolving Credit Facility) with Bank of America, N.A. and certain other lenders. On April 30, 2010, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement without incurring termination charges. Under the terms of the amended Revolving Credit Facility, the size of the facility remains at $60.0 million, and the maturity date has been extended to May 12, 2012. In connection with the amendment, we incurred an amendment fee of $0.2 million and legal fees of $0.1 million, which are being amortized over 24 months. Borrowings under the Revolving Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventory. We intend to enter into discussions with our existing bank group to extend the maturity date of this facility although there can be no assurance that we will be successful.

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

At June 30, 2011, we had $17.7 million available to us under the Revolving Credit Facility, based on a borrowing base of $25.8 million, $8.1 million in outstanding letters of credit, and no outstanding borrowings.

As of June 30, 2011, we were subject to the financial covenant under the Revolving Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability is less than $25.0 million and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least $25.0 million for a period of 60 consecutive days. As of June 30, 2011, our Total Liquidity was in excess of $25.0 million for the previous 60 days. Had our Total Liquidity been less than $25.0 million for the previous 60 days at June 30, 2011, we would not have met the 1.0:1.0 fixed charge coverage ratio test.

The Tontine Term Loan

On December 12, 2007, we entered into a $25.0 million senior subordinated loan agreement (the Tontine Term Loan) with Tontine Capital Partners, L.P., a related party (Tontine). The Tontine Term Loan bears interest at 11.0% per annum and is due on May 15, 2013. Interest is payable quarterly in cash or in-kind at our option. Any interest paid in-kind will bear interest at 11.0% in addition to the loan principal. On April 30, 2010, we prepaid $15.0 million of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to TCP Overseas Master Fund II, L.P. (TCP 2), an affiliate of Tontine. We may repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty. The Tontine Term Loan is subordinated to our Revolving Credit Facility with Bank of America, N.A. The Tontine Term Loan is an unsecured obligation of the Company and its subsidiary borrowers. The Tontine Term Loan contains no financial covenants or restrictions on dividends or distributions to stockholders.

Liquidity and Capital Resources

As of June 30, 2011, we had cash and cash equivalents of $23.0 million, working capital of $71.5 million, $8.1 million of letters of credit outstanding and $17.7 million of available capacity under our Revolving Credit Facility. We anticipate that the combination of cash on hand, cash flows from operations and available capacity under our Revolving Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. Our ability to generate cash flow is dependent on many factors, including demand for our services, the successful renegotiation of

our credit facility, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables, our ability to borrow on our amended Revolving Credit Facility, if needed, and our ability to successfully conclude our wind down of operations described in the 2011 Restructuring Plan. We were not required to test our covenants under our Revolving Credit Facility in the period as our Total Liquidity was greater than the minimum $25.0 million under our Resolving Credit Facility.

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Had we been required to test our covenants, we would have failed at June 30, 2011. At June 30, 2011, our Total Liquidity was $40.7 million.

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

Operating Activities

Our cash flow from operations is primarily influenced by cyclicality, demand for our services, operating margins and the type of services we provide but can also be influenced by working capital needs such as the timing of our receivable collections. Working capital needs are generally higher during our fiscal third and fourth quarters due to the seasonality that we experience in many regions of the country. Operating activities used net cash of $23.7 million during the nine months ended June 30, 2011, as compared to $16.4 million of net cash used in the nine months ended June 30, 2010. The change in operating cash flows in the nine months ended June 30, 2011 was due to higher cash requirements for payroll and materials used to support increasing revenues, compared to a declining revenue environment in the 2010 period during which cash collections on receivables exceeded the cash required to fund for ongoing projects.

Investing Activities

In the nine months ended June 30, 2011, we had net cash provided from investing activities of $14.5 million as compared to $0.1 million of net cash used in investing activities in the nine months ended June 30, 2010. Investing activities in the nine months ended June 30, 2011 included $2.1 million for additions to property and equipment which was more than offset by $16.5 million of proceeds from the sale of two facilities. Investing activities in the nine months ended June 30, 2010 included $0.5 million used for capital expenditures, partially offset by $0.2 million of proceeds from the sale of equipment.

Financing Activities

Financing activities used net cash of $0.7 million in the nine months ended June 30, 2011 compared to $17.2 million used in the nine months ended June 30, 2010. Financing activities in the nine months ended June 30, 2011 included $0.6 million used for payments of debt and $0.1 million used for the acquisition of treasury stock. Financing activities in the nine months ended June 30, 2010 included $17.5 million relating to the repayment of $15.0 million of the Tontine Loan together with $2.5 million of other long-term debt, $0.2 million used for the purchase of treasury stock and $0.2 million used for debt issuance costs for the extension of the Company s Revolving Credit Facility.

Bonding Capacity

At June 30, 2011, we had adequate surety bonding capacity under our surety agreements. Our ability to access this bonding capacity is at the sole discretion of our surety providers. As of June 30, 2011, the expected cumulative cost to complete for projects covered by our surety providers was $113.6 million, of which $12.9 million relates to the wind-down operations described in the Company s 2011 Restructuring Plan. We believe we have adequate remaining available bonding capacity to meet our current needs; however, the duration, size, and aggregate number of outstanding bonds are subject to the sole discretion of our surety providers at any point in time. There can be no assurance that the current bonding facility will be available to us in the future. For additional information, please refer to Part 1. Item 1. Condensed Consolidated Financial Statements Note 11, Commitments and Contingencies *Surety* of this report.

Controlling Shareholder

On June 30, 2011, James M. Lindstrom, an affiliate of Tontine and Chairman of the Company s Board of Directors since February 2011, began serving as Interim Chief Executive Officer and President of the Company. While serving as Interim Chief Executive Officer and President, Mr. Lindstrom has the ability to affect the composition of the Company s management and influence the business operations of the Company or extraordinary transactions outside the normal course of the Company s business.

Based on Tontine s most recent amended Schedule 13D, Tontine s owns 58.1% of the Company s outstanding common stock. Although Tontine has not indicated any plans to alter its ownership level, should Tontine reconsider its investment plans and sell its controlling interest in the Company, a change in ownership would occur. A change in

ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses for federal and state income tax purposes. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our Revolving Credit

Facility, bonding agreements with our sureties and employment contracts with certain officers and employees of the Company.

On April 30, 2010, we prepaid $15.0 million of the original $25.0 million principal outstanding on the Tontine Term Loan; accordingly $10.0 million remains outstanding under the Tontine Term Loan as of June 30, 2011.

Off-Balance Sheet Arrangements and Contractual Obligations

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

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

At June 30, 2011, we had $8.1 million of letters of credit outstanding. Certain underwriters of our casualty insurance program require us to post letters of credit as collateral, as is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At June 30, 2011, $7.5 million of our outstanding letters of credit were to collateralize our insurance programs. The remaining balance of $0.6 million of outstanding letters of credit is used in situations where certain customers will not accept a payment and performance bond.

From time to time, we may enter into firm purchase commitments for materials such as copper wire and aluminum wire, among others, which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specified intervals at a fixed price over the term. As of June 30, 2011, we did not have any open purchase commitments.

Many of our customers require us to post performance and payment bonds issued by a surety. Those bonds guarantee the customer that we will perform under the terms of a contract and that we will pay subcontractors and vendors. In the event that we fail to perform under a contract or pay subcontractors and vendors, the customer may demand the surety to pay or perform under our bond. Our relationship with our sureties is such that we will indemnify the sureties for any expenses they incur in connection with any of the bonds they issue on our behalf. To date, we have not incurred any costs to indemnify our sureties for expenses they incurred on our behalf. As of June 30, 2011, we utilized cash and accumulated interest thereon of $4.0 million to collateralize older bonding programs.

As of June 30, 2011, our future contractual obligations due by September 30 of each of the following fiscal years include (1) (in millions):

	2011	2012	2013	2014	2015	2016	Thereaf	Total
Long-term debt obligations	$ 0.1	$	$ 10.0	$	$	$	$	$ 10.1
Operating lease obligations	$ 1.7	$ 5.2	$ 2.7	$ 1.4	$ 0.6	$ 0.3	$ 0.9	$ 12.8
Capital lease obligations	$ 0.1	$ 0.2	$ 0.2	$	$	$	$	$ 0.5
Total	$ 1.9	$ 5.4	$ 12.9	$ 1.4	$ 0.6	$ 0.3	$ 0.9	$ 23.4

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

Outlook

We anticipate that the combination of cash on hand, cash flows and available capacity under our Revolving Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. We expect that our capital expenditures will not exceed $2.5 million for the fiscal year

ending on September 30, 2011. Our ability to generate cash flow is dependent on our successful finalization of our restructuring efforts and many other factors, including demand for our products and services, adequate bonding capacity, existing or pending legislative or regulatory actions related to renewable energy and the purchase of homes, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables and our ability to borrow on our amended Revolving Credit Facility. We believe we have adequate remaining available bonding capacity to meet our current needs; however, the duration, size, and aggregate number of outstanding bonds are subject to the sole discretion of our surety providers at any point in time. There can be no assurance that the current bonding facility will be available to us in the future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2011 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and regulations. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the nine months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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ITEM 4. REMOVED AND RESERVED

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	Second Amended and Restated Certificate of Incorporation of Integrated Electrical Services, Inc. (Incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-8 filed on May 12, 2006)
3.2	Bylaws of Integrated Electrical Services, Inc. (Incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8, filed on May 12, 2006)
* 31.1	Rule 13a-14(a)/15d-14(a) Certification of James M. Lindstrom, Interim Chief Executive Officer
* 31.2	Rule 13a-14(a)/15d-14(a) Certification of Terry L. Freeman, Chief Financial Officer
* 32.1	Section 1350 Certification of James M. Lindstrom, Interim Chief Executive Officer
* 32.2	Section 1350 Certification of Terry L. Freeman, Chief Financial Officer
** 101.INS	XBRL Instance Document
** 101.SCH	XBRL Schema Document

* Filed herewith.

** Furnished herewith

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

SIGNATURES

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

INTEGRATED ELECTRICAL SERVICES, INC.

Date: August 15, 2011

By: /s/ Terry L. Freeman

Terry L. Freeman

Senior Vice President and Chief Financial Officer

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** 101.LAB	XBRL Label Linkbase Document
** 101.PRE	XBRL Presentation Linkbase Document

* Filed herewith.

** Furnished herewith