

INTEGRATED ELECTRICAL SERVICES INC

Form 10-K

December 12, 2014

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

**SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended September 30, 2014**

Commission File Number 1-13783

**Integrated Electrical Services, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**5433 Westheimer Road, Suite 500, Houston, Texas, 77056**

(Address of principal executive offices and ZIP code)

**76-0542208**  
(I.R.S. Employer

Identification No.)

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

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock, par value \$0.01 per share</b>	<b>NASDAQ</b>

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting stock of the Registrant on March 31, 2014 held by non-affiliates was approximately \$45.3 million. On December 12, 2014, there were 21,754,913 shares of common stock outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the 2015 Annual Meeting of Stockholders of the Registrant to be held on February 10, 2015 is incorporated by reference into Part III of this Form 10-K.



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**PART I**

**DEFINITIONS**

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

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K 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. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "could", "should", "expect", "plan", "project", "intend", "anticipate", "believe", "seek", "estimate", "pursue", "target", "continue", the negative of such terms or other comparable terminology. These statements involve risks and uncertainties that could cause the Company's actual future outcomes to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

the ability of our controlling shareholder to take action not aligned with other shareholders;

the sale or disposition of the shares of our common stock held by our controlling shareholder, which, under certain circumstances, would trigger change of control provisions in our severance plan or financing and surety arrangements; or any other substantial sale of our common stock, which could depress our stock price;

relatively low liquidity levels of our common stock, which could depress our stock price;

the possibility that we issue additional shares of common stock or convertible securities that will dilute the percentage ownership interest of existing stockholders and may dilute the book value per share of our common stock;

the possibility that certain tax benefits of our net operating losses may be restricted or reduced in a change in ownership;

the inability to carry out plans and strategies as expected, including our inability to identify and complete acquisitions that meet our investment criteria in furtherance of our corporate strategy;

limitations on the availability of sufficient credit or cash flow to fund our working capital needs and capital expenditures and debt service;

difficulty in fulfilling the covenant terms of our credit facilities;

competition in the industries in which we operate, both from third parties and former employees, which could result in the loss of one or more customers or lead to lower margins on new projects;

challenges integrating new businesses into the Company or new types of work, products or processes into our segments;

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fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;

a general reduction in the demand for our services;

a change in the mix of our customers, contracts or business;

our ability to enter into, and the terms of, future contracts;

our ability to successfully manage projects;

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the possibility of errors when estimating revenue and progress to date on percentage-of-completion contracts;

closures or sales of facilities resulting in significant future charges, including potential warranty losses or other unexpected liabilities, or a significant disruption of our operations;

inaccurate estimates used when entering into fixed-priced contracts;

the cost and availability of qualified labor;

an 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;

the recognition of potential goodwill, long-lived assets and other investment impairments;

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;

accidents resulting from the physical hazards associated with our work and the potential for accidents;

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;

success in transferring, renewing and obtaining electrical and construction licenses;

backlog that may not be realized or may not result in profits;

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;

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the recognition of tax benefits related to uncertain tax positions;

complications associated with the incorporation of new accounting, control and operating procedures;

the possibility that our internal controls over financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur;

the effect of litigation, claims and contingencies, including warranty losses, damages or other latent defect claims in excess of our existing reserves and accruals;

growth in latent defect litigation in states where we provide residential electrical work for home builders not otherwise covered by insurance;

the possibility that our current insurance coverage may not be adequate or that we may not be able to obtain a policy at acceptable rates;

future capital expenditures and refurbishment, repair and upgrade costs; and delays in and costs of refurbishment, repair and upgrade projects; and

liabilities under laws and regulations protecting the environment.

You should understand that the foregoing, as well as other risk factors discussed in this document, including those listed in Part I, Item 1A of this report under the heading *Risk Factors*, could cause future outcomes to differ materially from those experienced previously or those expressed in such forward-looking statements. We



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undertake no obligation to publicly update or revise any information, including information concerning our controlling shareholder, net operating losses, borrowing availability or 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 Form 10-K 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.

### **Item 1. *Business***

#### **OVERVIEW OF OUR SERVICES**

Integrated Electrical Services, Inc. is a holding company that owns and manages subsidiaries operating across a variety of end markets. Our operations are currently organized into four principal business segments, based upon the nature of our current products and services:

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

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

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

**Infrastructure Solutions** Provider of industrial and rail services, and electrical and mechanical solutions to domestic and international customers.

Our businesses are managed in a decentralized manner. While sharing common goals and values, each of the Company's segments manages its own day-to-day operations. Our corporate office is focused on significant capital allocation decisions, investment activities and selection of segment leadership, as well as strategic and operational improvement initiatives and the establishment and monitoring of risk management practices within our segments.

Integrated Electrical Services, Inc. is a Delaware corporation established in 1997 and headquartered in Houston, Texas, with its executive office in Greenwich, Connecticut.

#### **CORPORATE STRATEGY**

We seek to create shareholder value through positive returns on capital and generation of free cash flow. In addition, we seek to acquire or invest in similar stand-alone platform companies based in North America or acquire businesses that strategically fit within our existing business segments. In evaluating potential acquisition candidates, we seek to invest in businesses with, among other characteristics:

Significant market share in niche industries and low technological and/or product obsolescence risk;

Proven management with a willingness to continue post acquisition;

Established market position and sustainable advantage;

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High returns on invested capital; and

Strong cash flow characteristics.

We believe that acquisitions provide an opportunity to expand into new end markets and diversify our revenue and profit streams. Further, by acquiring businesses with strong cash flow characteristics we expect to maximize

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the value of our significant net operating loss carry forwards ( NOLs ). While we may use acquisitions to build our presence in the electrical infrastructure industry, we will also consider potential acquisitions in other industries, which could result in changes in our operations from those historically conducted by us.

A majority of our outstanding common stock is owned by Tontine Capital Partners, L.P. and its affiliates (collectively, Tontine ). On August 15, 2014, Tontine filed an amended Schedule 13D indicating its ownership level of 61.4%. As a result, Tontine can control most of our affairs, including most actions requiring the approval of shareholders, such as the approval of any potential merger or sale of all or substantially all assets, segments, or the Company itself. While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, Tontine is party to a Registration Rights Agreement with the Company under which it has the ability, subject to certain restrictions, to demand registration of its shares in order to permit unrestricted sales of those shares. On February 20, 2013, pursuant to the Registration Rights Agreement, Tontine delivered a request to the Company for registration of all of its shares of IES common stock, and on February 21, 2013, the Company filed a shelf registration statement (as amended, the Shelf Registration Statement ) to register Tontine s shares. The Shelf Registration Statement was declared effective by the U.S. Securities and Exchange Commission ( SEC ) on June 18, 2013. As long as the Shelf Registration Statement remains effective, Tontine has the ability to resell any or all of its registered shares from time to time in one or more offerings, as described in the Shelf Registration Statement and in any prospectus supplement filed in connection with an offering pursuant to the Shelf Registration Statement. Tontine s sale of all or any portion of its shares could result in a change of control, which would trigger the change of control provisions in a number of our material agreements, including our credit facility, bonding agreements with our sureties and our executive severance plan. For more information see Note 3, *Controlling Shareholder* in the notes to our Consolidated Financial Statements.

### **Net Operating Loss Carry Forward**

The Company and certain of its subsidiaries have a federal NOL of approximately \$459 million at September 30, 2014, including approximately \$142 million resulting from the additional amortization of personal goodwill. 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. Should Tontine sell or otherwise dispose of all or a portion of its position in IES, a change in ownership could occur. In addition a change in ownership could result from the purchase of common stock by an existing or a new 5% shareholder as defined by Internal Revenue Code Section 382. Should a change in ownership occur, all net operating losses incurred prior to the change in ownership would be subject to limitation imposed by Internal Revenue Code Section 382, which would substantially reduce the amount of NOL currently available to offset taxable income. For more information see Item 8, *Financial Statements and Supplementary Data* of this Form 10-K.

On January 28, 2013, the Company implemented a tax benefit protection plan (the NOL Rights Plan ) that was designed to deter an acquisition of the Company s stock in excess of a threshold amount that could trigger a change of control within the meaning of Internal Revenue Code Section 382. The NOL Rights Plan was filed as an Exhibit to our Current Report on Form 8-K filed with the SEC on January 28, 2013 and any description thereof is qualified in its entirety by the terms of the NOL Rights Plan.

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The Company's reportable segments consist of the consolidated operating units identified above, which offer different products and services and are managed separately. The table below describes the percentage of our total revenues attributable to each of our four segments over each of the last three years:

	Years Ended September 30,					
	2014		2013		2012	
	\$	%	\$	%	\$	%
<b>(Dollars in thousands, Percentage of revenues)</b>						
Communications	\$ 116,073	22.7%	\$ 126,348	25.5%	\$ 121,492	26.6%
Residential	182,514	35.6%	162,611	32.9%	129,974	28.5%
Commercial & Industrial	166,249	32.4%	203,481	41.1%	204,649	44.9%
Infrastructure Solutions (1)	47,559	9.3%	2,153	0.5%		
<b>Total Consolidated</b>	<b>\$ 512,395</b>	<b>100.0%</b>	<b>\$ 494,593</b>	<b>100.0%</b>	<b>\$ 456,115</b>	<b>100.0%</b>

(1) This segment was added through the acquisition of MISCOR on September 13, 2013.

For additional financial information by segment, see Note 10, "Operating Segments" in the notes to our Consolidated Financial Statements. The residential, industrial, mission critical infrastructure and commercial industries in which we operate are exposed to many regional and national trends such as the demand for single and multi-family housing, the need for mission critical facilities as a result of technology-driven advancements, and changes in commercial, industrial, institutional, public infrastructure and electric utility spending. For a further discussion of the industries in which we operate, please see the discussion below of each of our segments.

**Communications***Business Description*

Originally established in 1984, our Communications segment is a leading provider of network infrastructure products and services for data centers and other mission critical environments. Services offered include the design, installation and maintenance of network infrastructure for the financial, medical, hospitality, government, high-tech manufacturing, educational and information technology industries. We also provide the design and installation of audio/visual, telephone, fire, wireless and intrusion alarm systems as well as design/build, service and maintenance of data network systems. A significant portion of our Communications revenue is generated from long-term, repeat customers, some of whom use IES as a preferred provider for major projects. We perform services across the United States from our 11 offices, including our Communications headquarters located in Tempe, Arizona, allowing dedicated onsite maintenance teams at our customers' sites.

*Industry Overview*

Our Communications segment is driven by demand increases for computing and storage resources as a result of technology advancements and changes in data consumption patterns. While growth of the data center market appears to be moderating, we are continuing to expand our offerings in this market to broaden our customer base. Additionally, demand has been growing for our audio-visual and security product offerings. Nevertheless, due to economic, technological and other factors, there can be no assurance that demand will continue to increase.

*Sales and Marketing*

We primarily specialize in installations of communication systems, and site and national account support for the mission critical infrastructure of Fortune 500 corporations. Our sales strategy relies on a concentrated business development effort, with centralized marketing programs and direct end-customer communications and



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relationships. Due to the mission critical nature of the facilities we service, our end-customers significantly rely upon our past performance record, technical expertise and specialized knowledge. Our long-term strategy is to improve our position as a preferred mission critical solutions and services provider to large national corporations and strategic local companies. Key elements of our long-term strategy include continued investment in our employees' technical expertise and expansion of our onsite maintenance and recurring revenue model.

### *Competition*

Our competition consists of both small, privately owned contractors who have limited access to capital and large public companies. We compete on quality of service and/or price, and seek to emphasize our long history of delivering high quality solutions to our customers.

### *Seasonality and Quarterly Fluctuations*

The effects of seasonality on our Communications business are insignificant, as work generally is performed inside structures protected from the weather. Our service and maintenance business is also generally not affected by seasonality. However, the industry has historically been highly cyclical. Our volume of business may be adversely affected by declines in 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.

## **Residential**

### *Business Description*

Residential provides electrical installation services for single-family housing and multi-family apartment complexes and cable television ( CATV ) cabling installations for residential and light commercial applications. In addition to our core electrical construction work, the Residential segment also provides services for the installation of residential solar power, smart meters, and electric car charging stations, both for new construction and existing residences. The Residential segment is made up of 23 total locations, which include the headquarters in Houston, Texas. These locations geographically cover Texas, the Sun-Belt, and the Western and Mid-Atlantic regions of the United States.

### *Industry Overview*

Our Residential business is closely correlated to the single and multi-family housing market, particularly in the Sun-Belt and our installation capabilities have the ability to effectively scale according to the housing cycle. Demand for both single-family and multi-family housing has increased with the economic recovery. Nevertheless, due to economic, technological or other factors there can be no assurance that construction and demand will continue to increase in the future.

### *Sales and Marketing*

Demand for our Residential services is highly dependent on the number of single-family and multi-family home starts in the markets we serve. Although we operate in multiple states throughout the Sun-Belt, Mid-Atlantic and western regions of the United States, the majority of our segment revenues are derived from services provided in the state of Texas. Our sales efforts include a variety of strategies, including a concentrated focus on national homebuilders and multi-family developers and a local sales strategy for single and multi-family housing projects. Our cable, solar and electric car charging station revenues are typically generated through third parties specializing in these industries who select us as a preferred provider of installation services.

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Our long-term strategy is to continue to be the leading national provider of electrical services to the residential market. Although the key elements of our long-term strategy include a continued focus on maintaining a low and variable cost structure and cash generation, during the housing downturn we modified our strategy by expanding into markets less exposed to national building cycles, such as solar panel and electric car charging installations.

### *Competition*

Our competition primarily consists of small, privately owned contractors who have limited access to capital. We believe that we have a competitive advantage over these smaller competitors due to our key employees' long-standing customer relationships, our financial capabilities, and our local market knowledge and competitive pricing. There are few barriers to entry for our electrical contracting services in the residential markets.

### *Seasonality and Quarterly Fluctuations*

Results of operations from our Residential segment can be seasonal, depending on weather trends, with typically higher revenues generated during spring and summer and lower revenues during fall and winter. 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.

## **Commercial & Industrial**

### *Business Description*

This segment offers a broad range of electrical design, construction, renovation, engineering and maintenance services to the commercial and industrial markets. The Commercial & Industrial segment consists of 19 total locations, which include the segment headquarters in Houston, Texas. These locations geographically cover Texas, Nebraska, Colorado, Oregon and the Mid-Atlantic region.

Services include the design of electrical systems within a building or complex and procurement and installation of wiring and connection to power sources, end-use equipment and fixtures, as well as contract maintenance. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house experts, or projects which require specific market expertise, such as transmission and distribution projects. 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: office buildings, manufacturing facilities, data centers, chemical plants, refineries, wind farms, solar facilities and municipal infrastructure and health care facilities. Our utility services consist of overhead and underground installation and maintenance of electrical and other utilities transmission and distribution networks, installation and splicing of high-voltage transmission and distribution lines, substation construction and substation and right-of-way maintenance. Our maintenance services generally provide recurring revenues that are typically less affected by levels of construction activity. Service and maintenance revenues are derived from service calls and routine maintenance contracts, which tend to be recurring and less sensitive to short-term economic fluctuations.

### *Industry Overview*

Given the diverse end markets of our Commercial & Industrial customers, which include both commercial buildings, such as offices, healthcare facilities and schools, and industrial projects, such as power, chemical, refinery and heavy manufacturing facilities, we are subject to many trends within the construction industry. In general, demand for our Commercial & Industrial services is driven by construction and renovation activity levels, economic growth, and availability of bank lending. Due to economic, technological or other factors there can be no assurance that construction and demand will increase.

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### *Sales and Marketing*

Demand for our Commercial & Industrial services is driven by construction and renovation activity levels, economic growth, and availability of bank lending. Certain of our projects have longer cycle times than our typical Commercial & Industrial services and may follow the economic trends with a lag. Our sales focus varies by location, but is primarily based upon regional and local relationships and a demonstrated expertise in certain industries, such as transmission and distribution.

With a focus on improved project execution, our long-term strategy is to be the preferred provider of electrical services in the markets where we have demonstrated expertise or are a local market leader. Key elements of our long-term strategy include leveraging our expertise in certain niche markets, expansion of our service and maintenance business and maintaining our focus on our returns on risk adjusted capital.

### *Competition*

The electrical infrastructure services industry is generally highly competitive and includes a number of regional or small privately-held local firms. There are few barriers to entry for our electrical contracting services in the commercial and industrial markets, which limits our advantages when competing for projects. Industry expertise, project size, location and past performance will determine our bidding strategy, the level of involvement from competitors and our level of success in winning awards. Our primary advantages vary by location and market, but mostly are based upon local individual relationships with key employees or a demonstrated industry expertise. Additionally, due to the size of many of our projects, our financial resources help us compete effectively against local competitors.

### *Seasonality and Quarterly Fluctuations*

The effects of seasonality on our Commercial & Industrial business are insignificant, as work generally is performed inside structures protected from the weather. Our service and maintenance business is also generally not affected by seasonality. However, 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.

## **Infrastructure Solutions**

### *Business Description*

Our Infrastructure Solutions segment, which was established in 2013 through our acquisition of MISCOR Group, LTD., provides maintenance and repair services to several industries, including electric motor repair and rebuilding for the steel, railroad, marine, petrochemical, pulp and paper, wind energy, mining, automotive and power generation industries. Infrastructure Solutions repairs and manufactures industrial lifting magnets for the steel and scrap industries, provides locomotive maintenance, remanufacturing, and repair services to the rail industry, and manufactures and rebuilds power assemblies, engine parts, and other components for large diesel engines. For more information see Note 18, *Business Combination* in the notes to our Consolidated Financial Statements.

### *Industry Overview*

Given the diverse end-markets of Infrastructure Solutions customers, we are subject to many economic trends. In general, demand for our products and services has been driven by in-house maintenance departments continuing to outsource maintenance and repair work, output levels and equipment utilization at heavy industrial facilities, railroad companies capital investment in locomotives, and an overall improvement in the economy.



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Further, given our strategic locations in Ohio, Indiana, and West Virginia, we believe that the segment is well-positioned to capture spending on unconventional oil and gas exploration and production.

### *Sales and Marketing*

Demand for Infrastructure Solutions' products and services is largely driven by the degree to which industrial and mechanical services are outsourced by our customers, production rates at steel, power generation and other heavy industrial facilities, the need for electrical infrastructure improvements, and spending on unconventional oil and gas exploration and production. Our sales efforts are largely driven by personnel based at our nine locations and independent sales representatives. Given that the majority of our customers are located within a 200 mile radius of our facilities, we believe that this structure allows us to rapidly address and respond to the needs of our customers. Our long term strategy is to be the preferred provider of outsourced electro-mechanical and power assembly services, repairs, and manufacturing to our select markets.

### *Competition*

Our competition is comprised mainly of small, specialized manufacturing and repair shops, a limited number of other multi-location providers of electric motor repair, engineering and maintenance services, and various original equipment manufacturers. Participants in this industry compete primarily on the basis of capabilities, service, quality, timeliness and, to a lesser extent, price. We believe that we have a competitive advantage over most small service providers due to our breadth of capabilities, focus on quality, technical support and customer service.

### *Raw Materials*

The principal raw materials used in Infrastructure Solutions are copper, raw steel, and various flexible materials. Certain raw materials are obtained from a number of commercial sources at prevailing prices, and we do not depend on any single supplier for any substantial portion of raw materials. We obtain copper and raw steel from across the country through multiple sources. The cost to deliver copper and raw steel can limit the geographic areas from which we can obtain this material. However, we may encounter problems from time to time in obtaining the raw materials necessary to conduct our Infrastructure Solutions business.

### *Seasonality and Quarterly Fluctuations*

Infrastructure Solutions' revenues from industrial services may be affected by the timing of scheduled outages at its industrial customers' facilities and by weather conditions with respect to projects conducted outdoors, but the effects of seasonality on revenues in its industrial services business are insignificant. The effects of seasonality on revenues for rail services are also insignificant. Infrastructure Solutions' quarterly results may fluctuate and the results of one fiscal quarter may not be representative of the results of any other quarter or of the full fiscal year.

## **RISK MANAGEMENT**

The primary risks in our existing operations include project bidding and management, bodily injury, property and environmental damage, and construction defects. We monitor project bidding and management practices at various levels within our company. We maintain automobile, general liability and construction defect insurance for third party health, bodily injury and property damage, pollution coverage and workers compensation coverage, which we consider appropriate to insure against these risks. Our third-party insurance is subject to deductibles for which we establish reserves. In light of these risks, we are also committed to a strong safety and environmental compliance culture. We employ full-time and part-time regional safety managers, under the supervision of our full-time Vice President of Safety, and seek to maintain standardized safety and environmental

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policies, programs, procedures and personal protection equipment relative to each segment, including programs to train new employees, which apply to employees new to the industry and those new to the Company. To further emphasize our commitment to safety, we have also tied certain management incentives to specific safety performance results.

In the electrical contracting industry, our ability to post surety bonds provides us with an advantage over competitors that are smaller or have fewer financial resources. We believe that the strength of our balance sheet, as well as a good relationship with our bonding providers, enhances our ability to obtain adequate financing and surety bonds. For a further discussion of our risks, please refer to Item 1A. Risk Factors of this Form 10-K.

**CUSTOMERS**

We have a diverse customer base. During the twelve-month periods ended September 30, 2014, 2013 and 2012, no single customer accounted for more than 10% of our revenues. We will continue to emphasize developing and maintaining relationships with our customers by providing superior, high-quality service. Management at each of our segments is responsible for determining sales strategies and sales activities.

**BACKLOG**

Backlog is a measure of revenue that we expect to recognize from work that has yet to be performed on uncompleted contracts, and from work that has been contracted but has not started, exclusive of short-term projects. While all of our backlog is supported by documentation from customers authorizing the performance of future work, backlog is not a guarantee of future revenues, as contractual commitments may change. The table below summarizes our backlog by segment:

	Years Ended September 30,	
	2014	2013
	(Dollars in millions)	
Communications	\$ 72	\$ 21
Residential	71	57
Commercial & Industrial	138	119
Infrastructure Solutions	5	7
<b>Total</b>	<b>\$ 286</b>	<b>\$ 204</b>

**REGULATIONS**

Our operations are subject to various federal, state and local laws and regulations, including:

licensing requirements applicable to electricians;

building and electrical codes;

regulations relating to worker safety and protection of the environment;

regulations relating to consumer protection, including those governing residential service agreements; and

qualifications of our business legal structure in the jurisdictions where we do business.

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Many state and local regulations governing electricians require permits and licenses to be held by individuals. In some cases, a required permit or license held by a single individual may be sufficient to authorize specified

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activities for all our electricians who work in the state or county that issued the permit or license. It is our policy to ensure that, where possible, any permits or licenses that may be material to our operations in a particular geographic area are held by multiple employees within that area.

We believe we have all licenses required to conduct our operations and are in compliance with applicable regulatory requirements. Failure to comply with applicable regulations could result in substantial fines or revocation of our operating licenses or an inability to perform government work.

## **CAPITAL FACILITIES**

During fiscal year 2014, the Company maintained a credit facility, as described in Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations - The 2012 Revolving Credit Facility* of this Form 10-K. For a discussion of the Company's capital resources, see Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* of this Form 10-K.

## **FINANCIAL INFORMATION**

For information on the Company's financial information by segment, see *Note 10, Operating Segments* in the notes to our Consolidated Financial Statements.

## **EMPLOYEES**

At September 30, 2014, we had 2,779 employees. We are party to two collective bargaining agreements within our Infrastructure Solutions segment. We believe that our relationship with our employees is strong.

## **LOCATIONS**

We have 62 domestic locations serving the United States. In addition to our executive and corporate offices, we have 11 locations within our Communications business, 23 locations within our Residential business, 19 locations within our Commercial & Industrial business and nine locations within our Infrastructure Solutions business. This diversity helps to reduce our exposure to unfavorable economic developments in any given region.

## **EXECUTIVE OFFICERS OF THE REGISTRANT**

Certain information with respect to each executive officer is as follows:

*James M. Lindstrom*, 42, has served as President and Chief Executive Officer of the Company since October 3, 2011. He previously served as Interim President and Chief Executive Officer of the Company since June 30, 2011. Mr. Lindstrom was an employee at Tontine Associates, LLC, a private investment fund and an affiliate of our controlling shareholder from 2006 to October 3, 2011. From 2003 to 2006, Mr. Lindstrom was Chief Financial Officer of Centru Financial Corporation, a regional financial services company, and had prior experience in private equity and investment banking. Mr. Lindstrom served as a director of Broadwind Energy, Inc. from October 2007 to May 2010 and has served as a board observer on multiple public and private boards.

*Robert W. Lewey*, 52, has served as Senior Vice President and Chief Financial Officer since January 20, 2012. From 2001 to 2006 and again since 2007, Mr. Lewey served as Director of Tax, Vice President, Tax and

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Treasurer for IES. From 2006 to 2007, he served as Vice President, Tax for Sulzer US Holdings, Inc. From 1995 to 2001, Mr. Lewey served as Vice President, Tax for Metamor Worldwide, Inc., a leading provider of information technology solutions. Mr. Lewey began his career with Deloitte & Touche LLP.

*Gail D. Makode*, 39, has served as Senior Vice President, General Counsel and Corporate Secretary since October 15, 2012. Previously, Ms. Makode served in various legal positions at MBIA Inc. and its subsidiaries from 2006 to 2012, including as General Counsel and a Member of the Board at MBIA Insurance Corporation and Chief Compliance Officer of MBIA Inc. Prior to MBIA, Ms. Makode served as vice president and counsel for Deutsche Bank AG from 2003 to 2006, and before that, was an associate at Cleary, Gottlieb, Steen & Hamilton, where she specialized in public and private securities offerings and mergers and acquisitions.

We have adopted a Code of Ethics for Financial Executives that applies to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer. The Code of Ethics may be found on our website at [www.ies-corporate.com](http://www.ies-corporate.com). If we make any substantive amendments to the Code of Ethics or grant any waiver, including any implicit waiver, from a provision of the code to our Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, we will disclose the nature of such amendment or waiver on that website or in a report on Form 8-K. Paper copies of these documents are also available free of charge upon written request to us.

## **AVAILABLE INFORMATION**

General information about us can be found on our website at [www.ies-corporate.com](http://www.ies-corporate.com) under Investor Relations. We file our interim and annual financial reports, as well as other reports required by the Securities Exchange Act of 1934, as amended (the Exchange Act), with the United States Securities and Exchange Commission (the SEC).

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 and exhibits to those reports are available free of charge through our website as soon as it is reasonably practicable after we file them with, or furnish them to, the SEC. You may also contact our Investor Relations department and they will provide you with a copy of these reports. The materials that we file with the SEC are also available free of charge through the SEC's website at [www.sec.gov](http://www.sec.gov). You may also read and copy these materials at the SEC's Public Reference Room at 100 F Street, NE., Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1 800 SEC 0330.

In addition to the Code of Ethics for Financial Executives, we have adopted a Code of Business Conduct and Ethics for directors, officers and employees (the Legal Compliance and Corporate Policy Manual), and established Corporate Governance Guidelines and adopted charters outlining the duties of our Audit, Human Resources and Compensation and Nominating/Governance Committees, copies of which may be found on our website. Paper copies of these documents are also available free of charge upon written request to us. We have designated an audit committee financial expert as that term is defined by the SEC. Further information about this designee may be found in the Proxy Statement for the 2015 Annual Meeting of Stockholders of the Company.

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### **Item 1A. Risk Factors**

*You should consider carefully the risks described below, as well as the other information included in this document before making an investment decision. Our business, results of operations or financial condition could be materially and adversely affected by any of these risks, and the value of your investment may decrease due to any of these risks.*

#### **Existence of a controlling shareholder.**

A majority of our outstanding common stock is owned by Tontine Capital Partners, L.P. and its affiliates (collectively, "Tontine"). On August 15, 2014, Tontine filed an amended Schedule 13D indicating its ownership level of 61.4%. As a result, Tontine can control most of our affairs, including the election of our directors, who in turn appoint executive management, and can control most actions requiring the approval of shareholders, including the adoption of amendments to our corporate charter and approval of any potential merger or sale of all or substantially all assets, segments, or the Company itself. This control also gives Tontine the ability to bring matters to a shareholder vote that may not be in the best interest of our other shareholders or stakeholders. Additionally, Tontine is in the business of investing in companies and may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us or act as suppliers or customers of the Company. Pursuant to a shelf registration statement that was declared effective by the SEC on June 18, 2013, Tontine has the ability to resell any or all of its registered shares from time to time in one or more offerings as long as the shelf registration statement remains effective, as described further in the shelf registration statement and in any prospectus supplement filed in connection with an offering pursuant to the shelf registration statement. Tontine's sale of all or any portion of its shares could result in a change of control, which would trigger the change of control provisions in a number of our material agreements, including our credit facility, bonding agreements with our sureties and our executive severance plan.

#### **Although publicly traded, our common stock has less liquidity than many other stocks listed on the NASDAQ Global Market.**

The trading volume in our common stock on the NASDAQ Global Market has been relatively low when compared with larger companies listed on the NASDAQ Global Market or other stock exchanges. Although we have at times experienced increased liquidity in our stock, we cannot say with any certainty that a more active and liquid trading market for our common stock will continue to develop. Because of this, it may be more difficult for shareholders to sell a substantial number of shares for the same price at which shareholders could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock may fluctuate in the future, and this volatility may be unrelated to our performance. General market price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

#### **We may issue additional shares of common stock or convertible securities that will dilute the percentage ownership interest of existing stockholders and may dilute the book value per share of our common stock.**

Our authorized capital includes 100,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of September 30, 2014, we had 21,767,700 shares of common stock outstanding and no shares of preferred stock outstanding. We have reserved for issuance 170,000 shares of common stock underlying options that are

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exercisable at a weighted average price of \$5.46 per share. In addition, as of September 30, 2014 we had the ability to issue 648,029 shares of common stock pursuant to options and restricted stock that may be granted in the future under our existing equity compensation plans.

Although we presently do not have any intention of issuing additional common stock (other than pursuant to our equity compensation plans), we may do so in the future in order to meet our capital needs. Subject to applicable NASDAQ Listing Rules, our board of directors generally has the authority, without action by or vote of the stockholders, to issue all or part of any authorized but unissued shares of common stock for any corporate purpose. We may seek additional equity capital in the future as we develop our business and expand our operations. Any issuance of additional shares of common stock or convertible securities will dilute the percentage ownership interest of our stockholders and may dilute the book value per share of our common stock.

### **Substantial sales of our common stock could adversely affect our stock price.**

Sales of a substantial number of shares of our common stock by holders of our common stock, or the perception that such sales could occur, could adversely affect the market price of our common stock by introducing a large number of shares into the market. Such sales, or the perception that such sales could occur, could cause the market price of our common stock to decline. We cannot predict whether future sales of our common stock, or the availability of our common stock for sale, will adversely affect the market price for our common stock or our ability to raise capital by offering equity securities.

### **Availability of net operating losses may be reduced by a change in ownership.**

A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses, ( NOLs ), for federal and state income tax purposes. Should Tontine sell or otherwise dispose of all or a portion of its position in IES, a change in ownership could occur. A change in ownership could also result from the purchase of common stock by an existing or a new 5% shareholder as defined by Internal Revenue Code Section 382. As of September 30, 2014, we have approximately \$317 million of federal NOLs that are available to use to offset taxable income, exclusive of NOLs from the amortization of additional tax goodwill. Should a change in ownership occur, all NOLs incurred prior to the change in ownership would be subject to limitation imposed by Internal Revenue Code Section 382, which would substantially reduce the amount of NOL currently available to offset taxable income.

On January 28, 2013, we implemented the NOL Rights Plan, which was designed to deter an acquisition of the Company's stock in excess of a threshold amount that could trigger a change of control within the meaning of Internal Revenue Code Section 382. The NOL Rights Plan is designed to effectively dilute the ownership of such an acquirer through the offering of rights to the Company's other stockholders that could be exercised upon the acquirer's purchase of the Company's stock in excess of the threshold amount. We can make no assurances the NOL Rights Plan will be effective in deterring a change in control or protecting or realizing NOLs.

Any decrease in the federal statutory tax rate, or other changes in federal tax statutes, could also cause a reduction in the economic benefit of the NOL currently available to us.

### **To service our indebtedness and to fund working capital, we will require a significant amount of cash. Our ability to generate cash depends on many factors that are beyond our control.**

Our ability to make payments on and to refinance our indebtedness and to fund working capital requirements will depend on our ability to generate cash in the future. This is subject to our operational performance, as well as general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot provide assurance that our business will generate sufficient cash flow from operations or asset sales or that future borrowings will be available to us under our credit facility in an amount sufficient to enable us to pay

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our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot provide assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. Our inability to refinance our debt on commercially reasonable terms could have a material adverse effect on our business.

### **We have restrictions and covenants under our credit facility.**

We may not be able to remain in compliance with the covenants in our credit facility. A failure to fulfill the terms and requirements of our credit facility may result in a default under one or more of our material agreements, which could have a material adverse effect on our ability to conduct our operations and our financial condition.

### **The highly competitive nature of our industries could affect our profitability by reducing our profit margins.**

With respect to electrical contracting services, the industries in which we compete are highly fragmented and are served by many small, owner-operated private companies. There are also several large private regional companies and a small number of large public companies from which we face competition in these industries. In the future, we could also face competition from new competitors entering these markets because certain segments, such as our electrical contracting services, have a relatively low barrier for entry while other segments, such as our services for mission critical infrastructure, have attractive dynamics. Some of our competitors offer a greater range of services, including mechanical construction, facilities management, plumbing and heating, ventilation and air conditioning services. Competition in our markets depends on a number of factors, including price. Some of our competitors may have lower overhead cost structures and may, therefore, be able to provide services comparable to ours at lower rates than we do. If we are unable to offer our services at competitive prices or if we have to reduce our prices to remain competitive, our profitability would be impaired.

The markets in which Infrastructure Solutions does business are highly competitive, and we do not expect the level of competition that we face to decrease in the future. An increase in competitive pressures in these markets or our failure to compete effectively may result in pricing reductions, reduced gross margins, and loss of market share. Many of our competitors have longer operating histories, greater name recognition, more customers, and significantly greater financial, marketing, technical, and other competitive resources than we have. These competitors may be able to adapt more quickly to new technologies and changes in customer needs or devote greater resources to the development, promotion, and sale of their products and services. While we believe Infrastructure Solutions' overall product and service offerings distinguish it from its competitors, these competitors could develop new products or services that could directly compete with Infrastructure Solutions' products and services.

### **A failure to secure new contracts may adversely affect our cash flows and financial results.**

Much of our revenue is derived from projects that are awarded through a competitive bid process. Contract bidding and negotiations are affected by a number of factors, including our own cost structure and bidding policies. The failure to bid and be awarded projects, cancellations of projects or delays in project start dates could affect our ability to deploy our assets profitably. When we are awarded contracts, we face additional risks that could affect whether, or when, work will begin. Further, the winding down or completion of work on significant projects that are currently active will reduce our future revenue and earnings if we are unsuccessful in selling new work.

Many of our contracts may be canceled upon short notice, and we may be unsuccessful in replacing our contracts as they are completed. We could experience a decrease in profitability if we are unable to replace canceled, completed or expired contracts with new work. Certain of our customers assign work to us on a project-by-project basis under master service agreements. Under these agreements, our customers usually have no obligation to assign a specific amount of work to us.



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In addition, our ability to secure new contracts depends on our ability to maintain all required electrical, construction and business licenses. If we fail to successfully transfer, renew or obtain such licenses where applicable, we may be unable to compete for new business.

### **We may be unsuccessful at integrating other companies that we may acquire, or new types of work, products or processes into our segments.**

We are actively seeking to engage in acquisitions of operations, assets and investments, or to develop new types of work or processes, and we may seek to engage in dispositions of certain operations, assets or investments from time to time. If we are unable to successfully integrate newly acquired assets or operations or if we make untimely or unfavorable investments or dispositions, it could negatively impact the market value of our common stock. Additionally, any future acquisition, investment or disposition may result in significant changes in the composition of our assets and liabilities, and as a result, our financial condition, results of operations and the market value of our common stock following any such acquisition, investment or disposition may be affected by factors different from those currently affecting our financial condition, results of operations and market value of our common stock.

The difficulties of integrating a business, assets or operations potentially will include, among other things:

geographically separated organizations and possible differences in corporate cultures and management philosophies;

significant demands on management resources, which may distract management's attention from day-to-day business;

differences in the disclosure systems, compliance requirements, accounting systems, and accounting controls and procedures of the two companies, which may interfere with our ability to make timely and accurate public disclosure; and

the demands of managing new locations, new personnel and new lines of business acquired.

### **Demand for our services is cyclical and vulnerable to economic downturns affecting the industries we serve.**

Demand for our services has been, and will likely continue to be, cyclical in nature and vulnerable to downturns in the general economy and in the construction industry. Many of our customers depend on the availability of credit to purchase our services or electrical and mechanical products. Continued uncertainties or the return of constrained credit market conditions could have adverse effects on our customers, which would adversely affect our financial condition and results of operations. This continued uncertainty in economic conditions could have an adverse effect on our revenue and profits.

### **Changes in operating factors that are beyond our control could hurt our operating results.**

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are beyond management's control. These factors include the costs of new technology; the relative speed and success with which Infrastructure Solutions can acquire customers for its products and services; capital expenditures for equipment; sales, marketing, and promotional activities expenses; changes in its pricing policies, suppliers, and competitors; changes in operating expenses; increased competition in the markets we serve; and other general economic and seasonal factors. Adverse changes in one or more of these factors could hurt our operating results.

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### **Backlog may not be realized or may not result in profits.**

Customers often have no obligation under our contracts to assign or release work to us, and many contracts may be terminated on short notice. Reductions in backlog due to cancellation of one or more contracts by a customer or for other reasons could significantly reduce the revenue and profit we actually receive from contracts included in backlog. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenues reflected in our backlog.

### **Our use of percentage-of-completion accounting could result in a reduction or elimination of previously reported profits.**

A significant portion of our revenues are recognized using the percentage-of-completion method of accounting, utilizing the cost-to-cost method, which results in our recognizing contract revenues and earnings ratably over the contract term in proportion to our incurrence of contract costs. The earnings or losses recognized on individual contracts are based on estimates of contract revenues, costs and profitability. Contract losses are recognized in full when determined to be probable and reasonably estimable and contract profit estimates are adjusted based on ongoing reviews of contract profitability. Further, a portion of our contracts contain various cost and performance incentives. Penalties are recorded when known or finalized, which generally occurs during the latter stages of the contract. In addition, we record cost recovery claims when we believe recovery is probable and the amounts can be reasonably estimated. Actual collection of claims could differ from estimated amounts and could result in a reduction or elimination of previously recognized earnings. In certain circumstances, it is possible that such adjustments could be significant.

### **We may incur significant charges or be adversely impacted by the closure or sale of additional facilities.**

While, historically, we have incurred significant costs associated with the closure or disposition of facilities, we will continue to evaluate the need for facility closures or dispositions from time to time in the future. If we were to elect to dispose of a substantial portion of any of our segments, the realized values of such actions could be substantially less than current book values, which would likely result in a material adverse impact on our financial results. In addition, we may have warranty claims or other unexpected liabilities from closed facilities beyond the closing date, which could adversely impact our financial returns.

### **The availability and cost of surety bonds affect our ability to enter into new contracts and our margins on those engagements.**

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. We obtain surety bonds from two primary surety providers; however, there is no commitment from these providers to guarantee our ability to issue bonds for projects as they are required. Our ability to access this bonding capacity is at the sole discretion of our surety providers.

### **Due to seasonality and differing regional economic conditions, our results may fluctuate from period to period.**

Our business is subject to seasonal variations in operations and demand that affect the construction business, particularly in the Residential and Commercial & Industrial segments, as well as seasonal variations in the industrial and rail industries in which Infrastructure Solutions participates. Untimely weather delay from rain, heat, ice, cold or snow can not only delay our work but can negatively impact our schedules and profitability by delaying the work of other trades on a construction site. Our quarterly results may also be affected by regional economic conditions that affect the construction market. Infrastructure Solutions' revenues from industrial services may be affected by the timing of scheduled outages at its industrial customers' facilities and by weather

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conditions with respect to projects conducted outdoors. Accordingly, our performance in any particular quarter may not be indicative of the results that can be expected for any other quarter or for the entire year.

**The estimates we use in placing bids could be materially incorrect. The use of incorrect estimates could result in losses on a fixed price contract. These losses could be material to our business.**

We currently generate, and expect to continue to generate, a significant portion of our revenues under fixed price contracts. The cost of fuel, labor and materials, including copper wire, may vary significantly from the costs we originally estimate. Variations from estimated contract costs along with other risks inherent in performing fixed price contracts, including our ability to successfully manage projects, may result in actual revenue and gross profits for a project differing from those we originally estimated, and could result in losses on projects. Depending upon the size of a particular project, variations from estimated contract costs can have a significant impact on our operating results.

**Commodity and labor costs may fluctuate materially, and we may not be able to pass on all cost increases during the term of a contract, which could have an adverse effect on our ability to maintain our profitability.**

We enter into many contracts at fixed prices, and if the costs associated with labor; and commodities such as copper, aluminum, steel, fuel and certain plastics increase, losses may be incurred. Some of these materials have been and may continue to be subject to sudden and significant price increases. Depending on competitive pressures and customer resistance, we may not be able to pass on these cost increases to our customers, which would reduce our gross profit margins and, in turn, make it more difficult for us to maintain our profitability.

**We may experience difficulties in managing our billings and collections.**

Our billings under fixed price contracts in our electrical contracting business are generally based upon achieving certain milestones and will be accepted by the customer once we demonstrate those milestones have been met. If we are unable to demonstrate compliance with billing requests, or if we fail to issue a project billing, our likelihood of collection could be delayed or impaired, which, if experienced across several large projects, could have a materially adverse effect on our results of operations. Further, some of our customers may be highly leveraged, or may be subject to their own operating and regulatory risks, which may also limit their ability to pay.

**Our reported operating results could be adversely affected as a result of goodwill impairment charges.**

Accounting principles generally accepted in the United States of America ( GAAP ) require that goodwill attributable to each of our reporting units be tested at least annually, or when changes in circumstance indicate the carrying value of our reporting units may not be recoverable. Factors that could lead to impairment of goodwill include significant adverse changes in the business climate, declines in the financial condition of our business, and actual or projected operating results affecting our company as a whole or affecting any particular reporting unit. On an ongoing basis, we expect to perform impairment tests at least annually as of September 30. Impairment adjustments, if any, are required to be recognized as operating expenses. We cannot assure that we will not have future impairment adjustments to our recorded goodwill.

**The vendors who make up our supply chain may be adversely affected by the current operating environment and credit market conditions.**

We are dependent upon the vendors within our supply chain to maintain a steady supply of inventory, parts and materials. Many of our segments are dependent upon a limited number of suppliers, and significant supply disruptions could adversely affect our operations. If market conditions deteriorate, such as a slowdown in construction activity or a tightening of the credit market, it is possible that one or more of our suppliers will be

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unable to meet the terms of our operating agreements due to financial hardships, liquidity issues or other reasons related to market conditions.

### **Our operations are subject to numerous physical hazards. If an accident occurs, it could result in an adverse effect on our business.**

Hazards related to our industry include, but are not limited to, electrocutions, fires, machinery-caused injuries, mechanical failures and transportation accidents. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment, and may result in suspension of operations. Our insurance does not cover all types or amounts of liabilities. In addition, if our safety record were to substantially deteriorate over time, our customers could cancel our contracts or not award us future business.

### **Our current insurance coverage may not be adequate, and we may not be able to obtain insurance at acceptable rates, or at all.**

Our third-party insurance is subject to deductibles for which we establish reserves. No assurance can be given that our insurance or our provisions for incurred claims and incurred but not reported claims will be adequate to cover all losses or liabilities we may incur in our operations; nor can we provide assurance that we will be able to maintain adequate insurance at reasonable rates.

### **Our internal controls over financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur. Internal controls over financial reporting and disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met.**

On a quarterly basis we evaluate our internal controls over financial reporting and our disclosure controls and procedures, which include a review of the objectives, design, implementation and effectiveness of the controls and the information generated for use in our periodic reports. In the course of our controls evaluation, we sought (and seek) to identify data errors, control problems and to confirm that appropriate corrective actions, including process improvements, are being undertaken. This type of evaluation is conducted on a quarterly basis so that the conclusions concerning the effectiveness of our controls can be reported in our periodic reports.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be satisfied. Internal controls over financial reporting and disclosure controls and procedures are designed to give reasonable assurance that they are effective and achieve their objectives. We cannot provide absolute assurance that all possible future control issues have been detected. These inherent limitations include the possibility that our judgments can be faulty, and that isolated breakdowns can occur because of human error or mistake. The design of our system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed absolutely in achieving our stated goals under all potential future or unforeseeable conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error could occur without being detected.

### **We have adopted tax positions that a taxing authority may view differently. If a taxing authority differs with our tax positions, our results may be adversely affected.**

Our effective tax rate and cash paid for taxes are impacted by the tax positions that we have adopted. Taxing authorities may not always agree with the positions we have taken. We have established reserves for tax positions that we have determined to be less likely than not to be sustained by taxing authorities. However, there can be no assurance that our results of operations will not be adversely affected in the event that disagreement over our tax positions does arise.

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### **Litigation and claims can cause unexpected losses.**

In the construction business there are frequently claims and litigation. There are also inherent claims and litigation risks associated with the number of people that work on construction sites and the fleet of vehicles on the road every day. In all of our businesses, we are subject to potential claims and litigation. Claims are sometimes made and lawsuits filed for amounts in excess of their value or in excess of the amounts for which they are eventually resolved. Claims and litigation normally follow a predictable course of time to resolution. However, there may be periods of time in which a disproportionate amount of our claims and litigation are concluded in the same quarter or year. If multiple matters are resolved during a given period, then the cumulative effect of these matters may be higher than the ordinary level in any one reporting period.

### **Latent defect claims could expand.**

Latent defect litigation is normal for residential home builders in some parts of the country; however, such litigation is increasing in certain states where we perform work. Also, in recent years, latent defect litigation has expanded to aspects of the commercial market. Should we experience similar increases in our latent defect claims and litigation, additional pressure may be placed on the profitability of the Residential and Commercial & Industrial segments of our business.

### **We may be required to conduct environmental remediation activities, which could be expensive and inhibit the growth of our business and our ability to maintain profitability, particularly in our Infrastructure Solutions business.**

We are subject to a number of environmental laws and regulations, including those concerning the handling, treatment, storage, and disposal of hazardous materials. These laws predominantly affect our Infrastructure Solutions business but may impact our other businesses. These environmental laws generally impose liability on present and former owners and operators, transporters and generators of hazardous materials for remediation of contaminated properties. We believe that our business is operating in compliance in all material respects with applicable environmental laws, many of which provide for substantial penalties for violations. There can be no assurance that future changes in such laws, interpretations of existing regulations or the discovery of currently unknown problems or conditions will not require substantial additional expenditures. In addition, if we do not comply with these laws and regulations, we could be subject to material administrative, civil or criminal penalties, or other liabilities. We may also be required to incur substantial costs to comply with current or future environmental and safety laws and regulations. Any such additional expenditures or costs that we may incur could hurt our operating results.

### **The loss of a group or several key personnel, either at the corporate or operating level, could adversely affect our business.**

The loss of key personnel or the inability to hire and retain qualified employees could have an adverse effect on our business, financial condition and results of operations. Our operations depend on the continued efforts of our executive officers, senior management and management personnel at our segments. We cannot guarantee that any member of management at the corporate or subsidiary level will continue in their capacity for any particular period of time. We have a severance plan in place that covers certain of our senior leaders; however, this plan can neither guarantee that we will not lose key employees, nor prevent them from competing against us, which is often dependent on state and local employment laws. If we lose a group of key personnel or even one key person at a segment, we may not be able to recruit suitable replacements at comparable salaries or at all, which could adversely affect our operations. Additionally, we do not maintain key man life insurance for members of our management.

### **Item 1B. *Unresolved Staff Comments***

None.

**Table of Contents****Item 2. Properties****Facilities**

At September 30, 2014, we maintained branch offices, warehouses, sales facilities and administrative offices at 62 locations. Substantially all of our facilities are leased. We lease our executive office located in Greenwich, Connecticut and our corporate office located in Houston, Texas. We believe that our properties are adequate for our present needs, and that suitable additional or replacement space will be available as required. For a breakdown of our offices by segment, see Item 1. *Business-Operating Segments* of this Form 10-K.

**Item 3. Legal Proceedings**

For further information regarding legal proceedings, see Note 16, *Commitments and Contingencies - Legal Matters* in the notes to our Consolidated Financial Statements.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Market for Registrant's Common Equity; Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock trades on the NASDAQ Global Select Market under the ticker symbol IESC. The following table sets forth the daily high and low close price for our common stock as reported on NASDAQ for each of the four quarters of the fiscal years ended September 30, 2014 and 2013.

	High	Low
Year Ended September 30, 2014		
First Quarter	\$ 5.44	\$ 4.00
Second Quarter	\$ 6.59	\$ 5.27
Third Quarter	\$ 6.87	\$ 5.85
Fourth Quarter	\$ 8.37	\$ 6.14
Year Ended September 30, 2013		
First Quarter	\$ 5.80	\$ 3.90
Second Quarter	\$ 6.50	\$ 4.37
Third Quarter	\$ 6.39	\$ 4.22
Fourth Quarter	\$ 5.89	\$ 3.91

As of December 11, 2014, the closing market price of our common stock was \$7.34 per share and there were approximately 392 holders of record.

We have never paid cash dividends on our common stock, and we do not anticipate paying cash dividends in the foreseeable future. We expect that we will utilize all available earnings generated by our operations and borrowings under the 2012 Credit Facility for the development and operation of our business, to retire existing debt, to repurchase our common stock, or to acquire or invest in other businesses. Any future determination as to the payment of dividends will be made at the discretion of our Board of Directors and will depend upon our operating results, financial condition, capital requirements, general business conditions and other factors that the Board of Directors deems relevant. Our debt instruments restrict us from paying cash dividends and also place limitations on our ability to repurchase our common stock. See Item 7.

*Management's Discussion and Analysis of Financial Condition and Results of Operations - Working Capital* and Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources* of this Form 10-K.

**Table of Contents****Five-Year Stock Performance Graph**

The graph below compares the cumulative 5-Year total return provided shareholders on Integrated Electrical Services, Inc.'s common stock relative to the cumulative total returns of the Russell 2000 index and a customized peer group of seven companies that includes: Black Box Corp, Comfort Systems USA Inc., Furmanite Corp, MYR Group Inc., Pike Corp, Sterling Construction Company Inc. and Team Inc. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index, and in the peer group on September 30, 2009 and its relative performance is tracked through September 30, 2014.

	Years ended September 30,					
	2009	2010	2011	2012	2013	2014
Integrated Electrical Services, Inc.	\$ 100.00	46.71	25.16	56.52	50.43	102.48
Russell 2000	\$ 100.00	113.35	109.35	144.24	187.59	194.96
Peer Group	\$ 100.00	91.88	84.21	103.49	139.27	122.78

**Table of Contents****Item 6. Selected Financial Data**

The following selected consolidated historical financial information for IES should be read in conjunction with the audited historical Consolidated Financial Statements of Integrated Electrical Services, Inc. and subsidiaries, and the notes thereto, set forth in Item 8, *Financial Statements and Supplementary Data* of this Form 10-K.

	Years Ended September 30,				
	2014	2013	2012	2011	2010
	(In Thousands, Except Share Information)				
<b>Continuing Operations:</b>					
Revenues	\$ 512,395	\$ 494,593	\$ 456,115	\$ 406,141	\$ 382,431
Cost of services	429,269	427,633	398,063	361,757	326,939
Gross profit	83,126	66,960	58,052	44,384	55,492
Selling, general and administrative expenses	75,571	66,598	58,609	63,321	74,251
Gain on sale of Assets	(86)	(64)	(168)	(6,555)	(128)
Asset impairment				4,804	
Restructuring charges					763
Income (loss) from Operations	7,641	426	(389)	(17,186)	(19,394)
<b>Other (income) expense:</b>					
Interest expense	1,574	1,771	2,324	2,210	3,271
Other expense (income), net	(203)	507	(96)	(7)	(18)
Income (loss) from operations before income taxes	6,270	(1,852)	(2,617)	(19,389)	(22,647)
Provision (benefit) for income taxes	748	326	38	172	(36)
Net income (loss) from continuing operations	\$ 5,522	\$ (2,178)	\$ (2,655)	\$ (19,561)	\$ (22,611)
<b>Discontinued Operations:</b>					
Loss from discontinued operations	(198)	(1,395)	(9,158)	(18,288)	(8,539)
Provision (benefit) for income taxes			(11)	(26)	5
Net loss discontinued operations	(198)	(1,395)	(9,147)	(18,262)	(8,544)
Net income (loss)	\$ 5,324	\$ (3,573)	\$ (11,802)	\$ (37,823)	\$ (31,155)
<b>Basic earnings (loss) per share:</b>					
Continuing operations	\$ 0.30	\$ (0.14)	\$ (0.18)	\$ (1.30)	\$ (1.52)
Discontinued operations	\$ (0.01)	\$ (0.09)	\$ (0.60)	\$ (1.22)	\$ (0.57)
Total	\$ 0.29	\$ (0.23)	\$ (0.78)	\$ (2.52)	\$ (2.09)
<b>Diluted earnings (loss) per share:</b>					
Continuing operations	\$ 0.30	\$ (0.14)	\$ (0.18)	\$ (1.30)	\$ (1.52)
Discontinued operations	\$ (0.01)	\$ (0.09)	\$ (0.60)	\$ (1.22)	\$ (0.57)
Total	\$ 0.29	\$ (0.23)	\$ (0.78)	\$ (2.52)	\$ (2.09)



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Shares used to calculate loss per share					
Basic	18,417,564	15,460,424	15,123,052	14,986,534	14,899,288
Diluted	18,473,420	15,460,424	15,123,052	14,986,534	14,899,288

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	2014	Years Ended September 30,				2010
		2013	2012	2011	(In Thousands, Except Share Information)	
<b>Balance Sheet Data:</b>						
Cash and cash equivalents	\$ 47,342	\$ 20,757	\$ 18,729	\$ 35,577	\$ 32,924	
Working capital	72,073	45,467	43,001	61,721	82,202	
Total assets	201,108	179,252	164,713	180,244	207,860	
Total debt	10,208	13,772	10,480	10,498	11,256	
Total stockholders' equity	87,972	62,486	53,157	64,301	101,201	

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and the notes thereto, set forth in Item 8, *Financial Statements and Supplementary Data* of this Form 10-K. For additional information, see *Disclosure Regarding Forward Looking Statements* in Part I of this Form 10-K.

**OVERVIEW****Executive Overview**

Please refer to *Item 1. Business* of this Form 10-K for a discussion of the Company's services and corporate strategy. Integrated Electrical Services, Inc., a Delaware corporation, is a holding company that owns and manages diverse operating subsidiaries, comprised of providers of industrial products and infrastructure services to a variety of end markets. Our operations are currently organized into four principal business segments: Communications, Residential, Commercial & Industrial, and Infrastructure Solutions.

*Industry Trends*

Our performance is affected by a number of trends that drive the demand for our services. In particular, the markets in which we operate are exposed to many regional and national trends such as the demand for single and multi-family housing, the need for mission critical facilities as a result of technology-driven advancements, the degree to which in-house maintenance departments outsource maintenance and repair work, output levels and equipment utilization at heavy industrial facilities, and by railroad companies, and changes in commercial, institutional, public infrastructure and electric utility spending. Over the long term, we believe that there are numerous factors that could positively drive demand and affect growth within the industries in which we operate, including (i) population growth, which will increase the need for commercial and residential facilities, (ii) aging public infrastructure, which must be replaced or repaired, (iii) increased emphasis on environmental and energy efficiency, which may lead to both increased public and private spending, and (iv) the low price of natural gas which is expected to spur the construction of and modifications to heavy industrial facilities. However, there can be no assurance that we will not experience a decrease in demand for our services due to economic, technological or other factors. For a further discussion of the industries in which we operate, please see *Item 1. Business Operating Segments* of this Form 10-K.

*Business Outlook*

While differences exist among the Company's segments, on an overall basis, demand for the Company's services increased in fiscal 2014 as compared to fiscal 2013 resulting in aggregate year-over-year revenue growth. In addition, the Company's previous investment in growth initiatives and other business-specific factors discussed below contributed to year-over-year revenue growth. Among our segments, year-over-year revenue growth rates during fiscal 2014 were led primarily by growth in our Residential segment and the addition of our Infrastructure

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Solutions segment. The combination of increasing revenue, increasing project bid margins, effective project execution, and efficient scaling of operations as the economy improves have resulted in a return to profitability. Provided that no significant deterioration in general economic conditions occurs, the Company expects total revenues from existing businesses to increase on a year-over-year basis during fiscal 2015 due to an increase in overall demand for the services we provide. Despite this expectation of growth within certain segments, we remain focused on controlled growth within certain markets which continue to experience highly competitive margins and increasing costs.

To continue to grow our business, including through acquisitions, and to fund working capital, we may require a significant amount of cash. Our ability to generate cash depends on many factors that are beyond our control, including demand for our products and services, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables, our ability to borrow on our 2012 Credit Facility, and our ability to raise funds in the capital markets as we did through a rights offering in fiscal year 2014, among many other factors. We anticipate that the combination of cash on hand, cash flows and available capacity under our 2012 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 fixed asset requirements will range from \$3.0 to \$4.0 million for the fiscal year ending on September 30, 2015, and we may acquire these assets either through capital expenditures or through lease agreements.

**RESULTS OF OPERATIONS**

We report our operating results across our four operating segments: Communications, Residential, Commercial & Industrial and Infrastructure Solutions. Expenses associated with our Corporate office are classified as a fifth segment. The following table presents selected historical results of operations of IES. The Infrastructure Solutions segment was added in connection with the acquisition of MISCOR in September 2013.

	Years Ended September 30,					
	2014		2013		2012	
	\$	%	\$	%	\$	%
(Dollars in thousands, Percentage of revenues)						
Revenues	\$ 512,395	100.0%	\$ 494,593	100.0%	\$ 456,115	100.0%
Cost of services	429,269	83.8%	427,633	86.5%	398,063	87.3%
Gross profit	83,126	16.2%	66,960	13.5%	58,052	12.7%
Selling, general and administrative expenses	75,571	14.7%	66,598	13.5%	58,609	12.8%
Gain on sale of assets	(86)	0%	(64)	0%	(168)	0%
Income (loss) from operations	7,641	1.5%	426	0.0%	(389)	(0.1)%
Interest and other expense, net	1,371	0.3%	2,278	0.5%	2,228	0.5%
Income (loss) from operations before income taxes	6,270	1.2%	(1,852)	(0.5)%	(2,617)	(0.6)%
Provision for income taxes	748	0.1%	326	0.1%	38	0.0%
Net income (loss) from continuing operations	5,522	1.1%	(2,178)	(0.6)%	(2,655)	(0.6)%
Net loss from discontinued operations	(198)	0.0%	(1,395)	(0.3)%	(9,158)	(2.0)%
Benefit for income taxes		0.0%		0.0%	(11)	0.0%
Net loss from discontinued operations	(198)	0.0%	(1,395)	(0.3)%	(9,147)	(2.0)%
Net income (loss)	\$ 5,324	1.1%	\$ (3,573)	(0.9)%	\$ (11,802)	(2.6)%

Consolidated revenues for the year ended September 30, 2014 were \$17.8 million greater than for the year ended September 30, 2013, an increase of 3.6%. Revenues increased primarily due to the inclusion of a full year of results for our Infrastructure Solutions segment, which contributed \$47.6 million of revenues for the year ended



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September 30, 2014, compared with \$2.2 million in 2013. Additionally, our Residential segment continued to grow. These increases in revenue were partly offset by declines in our Communications and Commercial & Industrial segments.

Our overall gross profit percentage increased to 16.2% during the year ended September 30, 2014 as compared to 13.5% during the year ended September 30, 2013. Excluding the impact of the Infrastructure Solutions business acquired in September 2013, gross profit percentage would have increased from 13.5% to 15.7%. Gross profit as a percentage of revenue increased at both our Residential and Commercial & Industrial segments, partly offset by a slight decrease at our Communications segment. Infrastructure Solutions contributed \$10.0 million to our consolidated gross profit at a margin of 20.9%, which included an impact of \$0.5 million of additional costs associated with the sale of inventory that was written up to fair value in purchase accounting upon the acquisition of MISCOR in September of 2013.

Selling, general and administrative expenses include costs not directly associated with performing work for our customers. These costs consist primarily of compensation and benefits related to corporate, segment and branch management (including incentive-based compensation), occupancy and utilities, training, professional services, information technology costs, consulting fees, travel and certain types of depreciation and amortization. We allocate certain corporate selling, general and administrative costs across our segments as we believe this more accurately reflects the costs associated with operating each segment.

During the year ended September 30, 2014, our selling, general and administrative expenses were \$75.6 million, an increase of \$9.0 million, or 13.5%, as compared to the year ended September 30, 2013. The addition of our Infrastructure Solutions business contributed \$9.3 million of additional costs. Further, we experienced higher personnel costs in connection with increased profitability in our Residential segment and \$0.3 million of additional costs due to leadership changes in our Infrastructure Solutions segment. These increases were slightly offset by a reduction in acquisition related costs, as our 2013 results included \$3.0 million of such costs.

**Communications***2014 Compared to 2013*

	Years Ended September 30,			
	2014		2013	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 116,073	100.0%	\$ 126,348	100.0%
Gross Profit	21,169	18.2%	23,784	18.8%
Selling, general and administrative expenses	13,481	11.6%	13,610	10.8%

*Revenue.* Revenues decreased by \$10.3 million during the year ended September 30, 2014, an 8.1% decrease compared to the year ended September 30, 2013. The decrease is primarily the result of the completion of certain high-tech manufacturing projects performed in 2013, which did not recur in 2014. Revenues from high-tech manufacturing projects were \$7.5 million during the year ended September 30, 2014, compared to \$30.6 million during the year ended September 30, 2013. However, revenues attributable to data centers increased to \$43.8 million for the year ended September 30, 2014 compared to \$38.7 million for the year ended September 30, 2013. Data center revenue increased due to an expansion of our customer base in this market; partly offset by the decision of a large customer to procure its own materials to be used in our work, rather than sourcing those materials through us. Additionally, increased revenues from audio-visual and security work, as well as large distribution center projects, helped offset the decline in high-tech manufacturing revenue.

*Gross Profit.* Gross profit during the year ended September 30, 2014 decreased \$2.6 million, or 11.0%, as compared to the year ended September 30, 2013. Gross profit as a percentage of revenue decreased 0.6% to

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18.2% for the year ended September 30, 2014, due primarily to the relatively high margins on certain high-tech manufacturing projects which were ongoing in the year ended September 30, 2013, but did not recur in 2014.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased \$0.1 million, or 1.0%, during the year ended September 30, 2014 compared to the year ended September 30, 2013. Selling, general and administrative expenses as a percentage of revenues in the Communication segment increased 0.8% to 11.6% of segment revenue during the year ended September 30, 2014 compared to the year ended September 30, 2013. Although costs were reduced, cost as a percentage of revenue still increased, as revenue declined, but certain of our costs were not reduced in light of an anticipated increase in activity for 2015. Additionally, we incurred \$0.5 million of costs in connection with establishing new branches in Northern California and Texas in the year ended September 30, 2014.

*2013 Compared to 2012*

	Years Ended September 30,			
	2013		2012	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 126,348	100.0%	\$ 121,492	100.0%
Gross Profit	23,784	18.8%	18,204	15.0%
Selling, general and administrative expenses	13,610	10.8%	13,431	11.1%

*Revenue.* Revenues increased by \$4.9 million during the year ended September 30, 2013, a 4.0% increase compared to the year ended September 30, 2012. Revenues attributable to service and time and material projects increased \$1.2 million. Revenues from high tech manufacturing projects were \$30.3 million during the year ended September 30, 2013, compared to \$27.0 million during the year ended September 30, 2012. Revenues attributable to data centers were \$38.7 million for the year ended September 30, 2013 compared to \$38.0 million for the year ended September 30, 2012.

*Gross Profit.* Gross profit during the year ended September 30, 2013 increased \$5.6 million, or 30.6%, as compared to the year ended September 30, 2012. Gross profit as a percentage of revenue increased 3.8% to 18.8% for the year ended September 30, 2013, due primarily to the increased productivity through the completion of data center and high-tech manufacturing projects and, to a lesser extent, improved performance of our San Diego branch during the year ended September 30, 2013.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$0.2 million, or 1.3%, during the year ended September 30, 2013 compared to the year ended September 30, 2012. Selling, general and administrative expenses as a percentage of revenues in the Communication segment decreased 0.3% to 10.8% of segment revenue during the year ended September 30, 2013 compared to the year ended September 30, 2012. During the year ended September 30, 2012, we experienced higher selling, general and administrative costs in our San Diego operations, due primarily to a legal settlement and associated fees of \$1.7 million. These legal costs were not duplicated in the year ended September 30, 2013. Offsetting the decrease in legal costs was an increase in training and personnel costs, which include the addition of five sales people, and higher personnel and incentive costs directly attributable to increased activity and profitability for the year ended September 30, 2013.

**Table of Contents****Residential***2014 Compared to 2013*

	Years Ended September 30,			
	2014		2013	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 182,514	100.0%	\$ 162,611	100.0%
Gross Profit	33,829	18.5%	27,227	16.7%
Selling, general and administrative expenses	27,947	15.3%	25,447	15.6%

*Revenue.* Revenues increased \$19.9 million during the year ended September 30, 2014, an increase of 12.2% as compared to the year ended September 30, 2013. Single-family construction revenues increased by \$16.3 million, primarily in Texas, where the economy has experienced continued growth and population expansion. Revenues for our multi-family construction increased by \$2.9 million during the year ended September 30, 2014, as overall market conditions have continued to improve. Multi-family construction projects were primarily driven by increased demand for rental housing, student housing, and senior living facilities throughout the regions in which we operate. Revenue was impacted to a lesser degree by decreases in solar installations and increases in cable and service activity.

*Gross Profit.* During the year ended September 30, 2014, our Residential segment experienced a \$6.6 million, or 24.3%, increase in gross profit as compared to the year ended September 30, 2013. Gross profit increased due to higher volume of both single-family and multi-family projects, offset by lower volume and reduced gross margin percentage in solar projects. Total Residential gross margin increased to 18.5% for the year ended September 30, 2014, compared with 16.7% for 2013. Gross margin percentage increased by 2.9%, within single-family, and 2.2% within multi-family, offset to a lesser degree by a reduction in gross margin on cable and services activity. As demand has increased within the single-family business and copper prices have become more stable, profitability has increased.

*Selling, General and Administrative Expenses.* Our Residential segment experienced a \$2.5 million, or 9.8%, increase in selling, general and administrative expenses during the year ended September 30, 2014 compared to the year ended September 30, 2013. However, selling, general and administrative expenses as a percentage of revenues in the Residential segment decreased 0.3% to 15.3% of segment revenue during the year ended September 30, 2014. The primary driver of the increase was the cost of incentive compensation for our operations managers, which grew from \$6.0 million for the year ended September 30, 2013 to \$10.0 million for the year ended September 30, 2014. We believe this incentive compensation structure, which is based on a profit-sharing model, is typical in the industry. While incentive and compensation cost increased as a result of increased activity and profitability, these increases were partly offset by a reduction in legal fees and bad debt expense for the year ended September 30, 2014 compared to the year ended September 30, 2013.

*2013 Compared to 2012*

	Years Ended September 30,			
	2013		2012	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 162,611	100.0%	\$ 129,974	100.0%
Gross Profit	27,227	16.7%	20,700	15.9%
Selling, general and administrative expenses	25,447	15.6%	19,703	15.2%

*Revenue.* Revenues increased \$32.6 million during the year ended September 30, 2013, an increase of 25.1% as compared to the year ended September 30, 2012. Revenues for our multi-family construction increased by \$21.0

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million during the year ended September 30, 2013, as overall market conditions have continued to improve. Multi-family construction projects were primarily driven by increased demand for rental housing, student housing, and senior living facilities throughout the regions in which we operate. Single-family construction revenues increased by \$16.7 million, primarily in Texas, where the economy has experienced continued growth and population expansion. Revenue was impacted to a lesser degree by decreases in solar installations and increases in cable and service activity.

*Gross Profit.* During the year ended September 30, 2013, our Residential segment experienced a \$6.5 million, or 31.5%, increase in gross profit as compared to the year ended September 30, 2012. Gross profit increased due to higher volume of both single-family and multi-family projects, offset by lower volume and reduced gross margin percentage in solar projects. Gross margin percentage increased by 0.9%, within single-family, and 1.6% within multi-family, offset to a lesser degree by a reduction in gross margin within our solar division.

*Selling, General and Administrative Expenses.* Our Residential segment experienced a \$5.7 million, or 29.2%, increase in selling, general and administrative expenses during the year ended September 30, 2013 compared to the year ended September 30, 2012. Selling, general and administrative expenses as a percentage of revenues in the Residential segment increased 0.4% to 15.6% of segment revenue during the year ended September 30, 2013. This increase is attributable primarily to the scaling of operations, including increased incentives in both single-family and multi-family divisions during the year ended September 30, 2013, and impacted to a lesser degree by increased legal fees related to construction defects claims.

**Commercial & Industrial***2014 Compared to 2013*

	Years Ended September 30,			
	2014	%	2013	%
	\$		\$	
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 166,249	100.0%	\$ 203,481	100.0%
Gross Profit	18,168	10.9%	15,524	7.6%
Selling, general and administrative expenses	14,479	8.7%	14,362	7.1%

*Revenue.* Revenues decreased \$37.2 million during the year ended September 30, 2014, a decrease of 18.3% compared to the year ended September 30, 2013. Our Commercial & Industrial segment is impacted not only by construction industry trends, but also specific industry and local economic trends. Impacts from these trends on our revenues may be delayed due to the long lead time of our projects. During the year ended September 30, 2014, our revenue decrease was the result of large commercial projects for which we recognized substantial revenue in the year ended September 30, 2013, but are now complete or nearing completion.

*Gross Profit.* Gross profit during the year ended September 30, 2014 increased by \$2.6 million, or 17.0%, as compared to the year ended September 30, 2013. Commercial & Industrial's gross margin percentage increased 3.3% to 10.9% during the year ended September 30, 2014. The increase in margin was primarily the result of improved productivity, as well as a more selective bidding strategy. In particular, we recognized improved margins in the year ended September 30, 2014 as compared to 2013 on our ongoing major project related to the construction of an infectious disease facility which has been underway since 2009. However, gross margin on this project is still below average for our commercial projects in both 2013 and 2014. Project bid margins have continued to improve in 2014; however, the market remains competitive, and we expect continued pressure on our ability to increase project bid margins in most of the markets we serve.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses during the year ended September 30, 2014 increased by \$0.1 million, or 0.8%, compared to the year ended September 30, 2013.



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Selling, general and administrative expense as a percentage of revenues in the Commercial & Industrial segment increased by 1.6% during the year ended September 30, 2014, reflective of higher incentive compensation costs in connection with increased profitability.

*2013 Compared to 2012*

	Years Ended September 30,			
	2013		2012	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 203,481	100.0%	\$ 204,649	100.0%
Gross Profit	15,524	7.6%	19,148	9.4%
Selling, general and administrative expenses	14,362	7.1%	17,166	8.4%

*Revenue.* Revenues decreased \$1.2 million during the year ended September 30, 2013, a decrease of 0.6% compared to the year ended September 30, 2012. Our Commercial & Industrial segment is impacted not only by industry construction trends, but also specific industry and local economic trends. Impacts from these trends on our revenues may be delayed due to the long lead time of our projects. During the year ended September 30, 2013, our revenue decrease was the result of the completion of large commercial projects early in the fiscal year, offset by a lesser degree by increased utility and industrial projects.

*Gross Profit.* Gross profit during the year ended September 30, 2013 decreased by \$3.6 million, or 18.9%, as compared to the year ended September 30, 2012. Commercial & Industrial's gross margin percentage decreased 1.8% to 7.6% during the year ended September 30, 2013. The decrease in margin was primarily due to a total of \$2.1 million of job underperformance on four projects in one of our commercial branches, and \$3.0 million due to the recognition of higher projected costs on a significant commercial project involving the construction of an infectious disease facility that commenced in 2009. The higher costs related to this significant commercial project are due to various delays and other impacts resulting in lower productivity rates than originally estimated and which are anticipated to continue for the remainder of the project. These projected costs resulted in a lower anticipated gross profit percentage on the project and a reduction in gross profit recognized to date. While we expect the project to be completed profitably, the project is outside of the maximum size and duration criteria within our risk management parameters that were implemented in mid-2011. This decrease in margin was offset by improvements in gross profits in multiple projects. While we have experienced some reprieve in project bid margins, particularly in our industrial branches, the competitive market that has existed during the prolonged recession has continued to constrain significant increases in project bid margins in most commercial markets.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses during the year ended September 30, 2013 decreased by \$2.8 million, or 16.3%, compared to the year ended September 30, 2012. Selling, general and administrative expenses as a percentage of revenues in the Commercial & Industrial segment decreased by 1.3% during the year ended September 30, 2013, reflective of lower personnel costs and, to a lesser extent, a reduction in other costs as the segment continues to scale to a level necessary to return to profitability.

**Infrastructure Solutions***2014 Compared to 2013*

	Years Ended September 30,			
	2014		2013	
	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)			
Revenue	\$ 47,559	100.0%	\$ 2,153	100.0%
Gross Profit	9,960	20.9%	425	19.7%
Selling, general and administrative expenses	9,346	19.7%	337	15.7%

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Our Infrastructure Solutions business was acquired on September 13, 2013. Therefore, amounts shown above include the results of operations beginning September 13, 2013 only. Revenues for our Infrastructure Solutions segment were \$47.6 million for the year ended September 30, 2014, and include \$34.4 million from industrial services and \$13.2 million from engine components services. Our gross profit from industrial services was \$7.2 million at a 20.2% margin, reflecting both revenue growth and an improvement in gross margins subsequent to our acquisition. This gross profit included an impact of \$0.5 million of additional costs associated with the sale of inventory that was written up to fair value in purchase accounting upon the acquisition of the business in 2013. The business climate for engine components services has been more challenging during the second half of the year ended September 30, 2014, as we have experienced a decrease in demand for our engine repair services from certain large customers. However, demand has begun to increase subsequent to September 30, 2014. The engine components service line reported gross profit of \$2.8 million at a margin of 21.3% for the year ended September 30, 2014. The Infrastructure Solutions segment reported \$9.3 million of general and administrative expense for the year ended September 30, 2014.

**Interest and Other Expense, net**

	Years Ended September 30,		
	2014	2013	2012
	(In thousands)		
Interest expense	\$ 1,189	\$ 1,249	\$ 1,755
Deferred financing charges	385	522	569
<b>Total interest expense</b>	<b>1,574</b>	<b>1,771</b>	<b>2,324</b>
Other (income) expense, net	(203)	507	(96)
<b>Total interest and other expense, net</b>	<b>\$ 1,371</b>	<b>\$ 2,278</b>	<b>\$ 2,228</b>

**Interest Expense**

During the year ended September 30, 2014, we incurred interest expense of \$1.6 million primarily comprised of interest expense from the Wells Fargo Term Loan, an average letter of credit balance of \$6.8 million under the 2012 Credit Facility and an average unused line of credit balance of \$23.8 million. This compares to interest expense of \$1.8 million for the year ended September 30, 2013, on a debt balance primarily comprised of the Wells Fargo Term Loan, an average letter of credit balance of \$7.4 million under the 2012 Credit Facility and an average unused line of credit balance of \$22.6 million.

For the year ended September 30, 2012, we incurred interest expense of \$2.3 million on a debt balance primarily comprised of the Tontine Term Loan, Insurance Financing Agreements, an average letter of credit balance of \$8.8 million under the 2006 Credit Facility and an average unused line of credit balance of \$29.7 million.

**Other (Income) Expense**

During the year ended September 30, 2013, we recorded a net charge of \$1.2 million to fully reserve for an outstanding receivable arising from a settlement agreement with a former surety. The reserve, which was comprised of the write-off of the entire balance of \$1.7 million, partly offset by a subsequent recovery of \$0.5 million, was recorded as other expense within our Consolidated Statements of Comprehensive Income. During the year ended September 30, 2014, we recovered an additional \$0.1 million of this receivable, which we also recorded as Other (income) expense within our Consolidated Statements of Comprehensive Income. Please refer to Note 16, Commitments and Contingencies in the Notes to the Consolidated Financial Statements set forth in Part I, Item 8 of this Quarterly Report on Form 10-K for additional information.

During the year ended September 30, 2013, we recorded a liability of \$0.7 million for contingent purchase consideration in conjunction with the Asset Purchase Agreement with the Acro Group. As a result of a change in

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the fair value of the liability resulting from a decrease in the likelihood of the contingent consideration being paid, we reduced the liability to \$0.1 million during the year ended September 30, 2013, resulting in other income of \$0.6 million. During the year ended September 30, 2014, the liability was settled without any contingent consideration being paid. Accordingly, we have reduced the liability to zero and recorded an additional \$0.1 million as other income within our Consolidated Statements of Comprehensive Income.

**PROVISION FOR INCOME TAXES**

Our provision for income taxes increased from \$0.3 million for the year ended September 30, 2013 to \$0.7 million for the year ended September 30, 2014. The increase is mainly attributable to a \$0.3 million increase related to federal income tax provision and a \$0.1 million increase in state income tax provision. We provided a valuation allowance for the federal income tax benefit resulting from the loss from operations for the year ended September 30, 2013. As a result, we did not recognize any net benefit for federal income taxes for the year ended September 30, 2013.

Our provision for income taxes increased from \$38 thousand for the year ended September 30, 2012 to \$0.3 million for the year ended September 30, 2013. The increase is mainly attributable to a decrease in the reversal of unrecognized tax benefits, resulting in a \$0.2 million increase in the income tax expense and a \$0.1 million increase in state income tax provision. We provided a valuation allowance for the federal income tax benefit resulting from the loss from operations for the years ended September 30, 2014 and 2013, respectively. As a result, we did not recognize any net benefit for federal income taxes for the years ended September 30, 2013 and 2012.

**WORKING CAPITAL**

During the year ended September 30, 2014, working capital increased by \$26.6 million from September 30, 2013, reflecting a \$23.9 million increase in current assets and a \$2.7 million decrease in current liabilities during the period.

During the year ended September 30, 2014, our current assets increased by \$23.9 million, or 16.6%, to \$168.0 million, as compared to \$144.0 million as of September 30, 2013. Cash and cash equivalents increased by \$26.6 million during the year ended September 30, 2014 as compared to September 30, 2013, primarily due to proceeds we received from our common stock rights offering in August, 2014, which raised net proceeds of approximately \$19.6 million, as well as cash generated by our operating activities. The current trade accounts receivables, net, increased by \$3.9 million at September 30, 2014, as compared to September 30, 2013. Days sales outstanding ( DSOs ) decreased to 54 as of September 30, 2014 from 59 as of September 30, 2013. The improvement was driven predominantly by increased collection efforts. While the rate of collections may vary, our secured position, resulting from our ability to secure liens against our customers' overdue receivables, reasonably assures that collection will occur eventually to the extent that our security retains value. Inventory decreased \$4.1 million during the year ended September 30, 2014 compared to September 30, 2013, due primarily to the timing of materials usage on certain of our Commercial & Industrial jobs, as well as a decrease in solar inventory at our Residential segment. We also experienced a \$2.0 million decrease in retainage during the year ended September 30, 2014 compared to September 30, 2013.

During the year ended September 30, 2014, our total current liabilities decreased by \$2.7 million to \$95.9 million, compared to \$98.6 million as of September 30, 2013. Current maturities of long-term debt decreased by \$3.6 million during the year ended September 30, 2014 compared to September 30, 2013 primarily due to the amendment of our 2012 Credit Facility in September, 2014. This amendment eliminated our term loan, and borrowings outstanding under that term loan are now outstanding under the revolving credit facility, which matures in August 2018. This decrease was partly offset by additional billings in excess of costs, which increased by \$1.2 million during the year ended September 30, 2014 compared to September 30, 2013.

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*Surety*

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

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

As of September 30, 2014, the estimated cost to complete our bonded projects was approximately \$55.4 million. We believe the bonding capacity presently provided by our sureties is adequate for our current operations and will be adequate for our operations for the foreseeable future. As of September 30, 2014, we utilized \$0.3 million of cash (as is included in *Other Non-Current Assets* in our Consolidated Balance Sheet) as collateral for certain of our previous bonding programs.

**LIQUIDITY AND CAPITAL RESOURCES**

As of September 30, 2014, we had cash and cash equivalents of \$47.3 million, working capital of \$72.1 million, and \$6.9 million of letters of credit outstanding under our 2012 Credit Facility. We anticipate that the combination of cash on hand, cash flows and available capacity under our 2012 Credit Facility will provide sufficient cash to enable us to meet our working capital needs, debt service requirements and capital expenditures for property and equipment through the next twelve months. Our ability to generate cash flow is dependent on many factors, including demand for our services, the availability of projects at margins acceptable to us, the ultimate collectability of our receivables, and our ability to borrow on our 2012 Credit Facility or raise funds in the capital markets, if needed.

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.

*The 2012 Revolving Credit Facility*

On August 9, 2012, we entered into a Credit and Security Agreement (the *Credit Agreement*), for a credit facility (as amended, the *2012 Credit Facility*) with Wells Fargo Bank, National Association (*Wells Fargo*). We have subsequently entered into four amendments to the 2012 Credit Facility and entered into an Amended and Restated Credit and Security Agreement (the *Amended Credit Agreement*) as of September 24, 2014, which increased the maximum revolver amount under the 2012 Credit Facility from \$30 million to \$60 million, and extended the maturity date by one year to August 9, 2018. In addition, under the Amended Credit Agreement, the Company eliminated its term loan facility so that borrowings that would previously have been made under the term loan facility, including borrowings for acquisitions, will now be made under the revolving

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credit facility with terms more favorable than the term loan facility, including a lower interest rate, as described below.

The 2012 Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries existing and future acquired assets, exclusive of collateral provided to our surety providers. The 2012 Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock.

The 2012 Credit Facility contains customary affirmative, negative and financial covenants. At September 30, 2014, we were subject to the financial covenant under the 2012 Credit Facility requiring, at any time that our Liquidity (the aggregate amount of unrestricted cash and cash equivalents on hand plus Excess Availability, as defined in the Amended Credit Agreement) is less than \$20 million or our Excess Availability is less than \$5 million, that we maintain a Fixed Charge Coverage Ratio of not less than 1.0:1.0. At September 30, 2014, our Liquidity was \$64.7 million and our Excess Availability was \$17.3 million, and as such, we were not required to maintain a Fixed Charge Coverage Ratio of 1.0:1.0 as of such date. Nonetheless, at September 30, 2014, our Fixed Charge Coverage Ratio was 1.7:1.0. Compliance with our Fixed Charge Coverage Ratio, while not required at September 30, 2014, provides us with the ability to use cash on hand or to draw on our 2012 Credit Facility such that we can fall below the Excess Availability and Liquidity minimum thresholds described above without violating our financial covenant.

Our Fixed Charge Coverage Ratio is calculated as (i) our trailing twelve month EBITDA (as defined in the 2012 Credit Facility), less non-financed capital expenditures (other than capital expenditures financed by means of an advance under the 2012 Credit Facility) cash taxes and certain pass-through tax liabilities, divided by (ii) the sum of our cash interest and principal debt payments (other than repayment of principal on advances under the 2012 Credit Facility) and all Restricted Junior Payments (as defined in the 2012 Credit Facility) (other than pass-through tax liabilities) and other cash distributions. As defined in the 2012 Credit Facility, EBITDA is calculated as consolidated net income (or loss), less extraordinary gains, interest income, non-operating income and income tax benefits and decreases in any change in LIFO reserves, plus stock compensation expense, non-cash extraordinary losses, interest expense, income taxes, depreciation and amortization and increases in any change in LIFO reserves.

If in the future our Liquidity or Excess Availability fall below \$20 million or \$5 million, respectively, and at that time our Fixed Charge Coverage Ratio is less than 1.0:1.0, or if we otherwise fail to perform or otherwise comply with certain of our covenants or other agreements under our 2012 Credit Facility, it would result in an event of default under our 2012 Credit Facility, which could result in some or all of our indebtedness becoming immediately due and payable.

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Borrowings under the 2012 Credit Facility may not exceed a borrowing base that is determined monthly by our lenders based on available collateral, primarily certain accounts receivables, inventories and personal property and equipment. Under the terms of the 2012 Credit Facility, amounts outstanding bear interest at a per annum rate equal to a Daily Three Month LIBOR (as defined in the Amended Credit Agreement), plus an interest rate margin, which is determined quarterly, based on the following thresholds:

Level	Thresholds	Interest Rate Margin
I	Liquidity £ \$20,000 at any time during the period; or  Excess Availability £ \$7,500 at any time during the period; or  Fixed charge coverage ratio < 1.0:1.0	3.00 percentage points
II	Liquidity > \$20,000 at all times during the period; and  Liquidity £ \$30,000 at any time during the period; and  Excess Availability \$7,500; and  Fixed charge coverage ratio <sup>3</sup> 1.0:1.0	2.50 percentage points
III	Liquidity > \$30,000 at all times during the period; and  Excess Availability > \$7,500; and  Fixed charge coverage ratio <sup>3</sup> 1.0:1.0	2.00 percentage points

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

At September 30, 2014, we had \$17.3 million under the 2012 Credit Facility that was available to us without triggering or violating our financial covenant, \$6.9 million in outstanding letters of credit with Wells Fargo and outstanding borrowings of \$10.2 million

*The Tontine Term Loan*

On December 12, 2007, we entered into the Tontine Term Loan, a \$25 million senior subordinated loan agreement, with Tontine, which the Company terminated and prepaid in full through a final payment of \$10 million in February, 2013.

*Rights Offering*

On August 7, 2014, we completed a \$20 million rights offering (the Rights Offering). In the Rights Offering, the Company distributed, at no charge, to the holders of shares of its common stock one non-transferable subscription right for each share of common stock owned as of the record date. Each right entitled the holder thereof to purchase from the Company 0.214578135 shares of common stock at a subscription price of \$5.20 per share, which represented a discount to the market price of the common stock at the closing of the offering. In addition, holders who purchased all of the shares of common stock available to them pursuant to their Basic Subscription Rights were entitled to subscribe, at the same subscription price of \$5.20 per share, for a portion of any shares of common stock that other holders did not purchase through the exercise of their Basic Subscription Rights, subject to certain limitations (the Over-Subscription Privilege). The Rights Offering was fully subscribed, after giving effect to the exercise of Over-Subscription Privileges, and we received net proceeds of approximately \$19.6 million, after deducting estimated offering expenses, for the issuance of 3,846,150 shares of common stock in the Rights Offering.

Immediately after giving effect to the Rights Offering, we had 21,768,642 shares of common stock issued and outstanding. Tontine beneficially owned approximately 60% of the shares of common stock outstanding immediately prior to launch of the Rights Offering, and immediately after giving effect to the Rights Offering, Tontine beneficially owned approximately 61% of the Company's outstanding shares.



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### *Investments*

From time to time, the company may invest in non-controlling positions in the debt or equity securities of other businesses. In October 2014, our Board approved an investment policy that permits the Company to invest our cash in liquid and marketable securities that include equities and fixed income securities, subject to Board approval of any such investment over \$500,000. Equity securities may include unrestricted, publicly traded stock that is listed on a major exchange or a national, over-the-counter market and that is appropriate for our portfolio objectives, asset class, and/or investment style, and fixed income securities are required to have an investment grade credit quality at the time of purchase.

### *Operating Activities*

Our cash flow from operations is not only influenced by cyclical, demand for our services, operating margins and the type of services we provide, but can also be influenced by working capital needs such as the timing of our receivable collections. Working capital needs are generally lower during our fiscal first and second quarters due to the seasonality that we experience in many regions of the country.

Operating activities provided net cash of \$12.6 million during the year ended September 30, 2014, as compared to \$2.0 million of net cash provided in the year ended September 30, 2013. In addition to higher net income in the year ended September 30, 2014 as compared to the year ended September 30, 2013, we ended fiscal 2014 with lower levels of working capital in connection with decreased inventory and other current asset balances.

Operating activities provided net cash of \$2.0 million during the year ended September 30, 2013, as compared to \$7.4 million of net cash used in the year ended September 30, 2012. We used substantially less cash to reduce our accounts payable and accrued expenses in 2013. We utilized inventory on hand during 2013 in the completion of large projects within our Communications segment. Our billings in excess of cost in fiscal 2013 decreased by \$4.6 million as compared to the prior year.

### *Investing Activities*

In the year ended September 30, 2014, net cash used in investing activities was \$2.0 million as compared to \$4.8 million of net cash used by investing activities in the year ended September 30, 2013. Investing activities for the year ended September 30, 2014 relate to capital expenditures. Investing activities in the year ended September 30, 2013 were comprised of \$5.2 million used in conjunction with the acquisition of MISCOR and the acquisition of certain assets from the Acro Group, and \$0.4 million used for capital expenditures, offset by \$0.8 million in proceeds from the sale of a building. Investing activities in the year ended September 30, 2012 included \$1.9 million used for capital expenditures.

### *Financing Activities*

Financing activities provided net cash of \$16.0 million in the year ended September 30, 2014 compared to \$4.8 million in the year ended September 30, 2013. For the year ended September 30, 2014, we raised \$19.6 million through a rights offering. This was partly offset by \$3.5 million used for repayments on our 2012 Credit Facility and \$0.2 used for the repurchase of common stock to satisfy employee payroll tax withholding obligations. For the year ended September 30, 2013, we entered into the Wells Fargo Term Loan in fiscal 2013, repaid the Tontine Term Loan, and repaid \$5.6 million in debt acquired immediately subsequent to the MISCOR acquisition. Financing activities in the year ended September 30, 2013 also included the release of \$7.1 million in restricted cash, as the requirement to cash collateralize borrowings on our 2012 Credit Facility was removed.

Financing activities in the year ended September 30, 2012 included an increase of \$7.1 million in restricted cash to satisfy the requirement of our 2012 Credit Facility. Additionally, \$0.3 million and \$0.2 million were used for the repayment of debt and the repurchase of common stock to satisfy payroll tax withholding obligations, respectively.



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**CONTROLLING SHAREHOLDER**

On August 15, 2014, Tontine filed an amended Schedule 13D indicating its ownership level of 61.4% of the Company's outstanding common stock. As a result, Tontine can control most of our affairs, including most actions requiring the approval of shareholders, such as the approval of any potential merger or sale of all or substantially all assets, segments, or the Company itself. While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, on February 20, 2013, pursuant to a Registration Rights Agreement, Tontine delivered a request to the Company for registration of all of the shares of IES common stock that it held at that time, and on February 21, 2013, the Company filed a shelf registration statement (as amended, the Shelf Registration Statement) to register those of Tontine's shares. The Shelf Registration Statement was declared effective by the SEC on June 18, 2013. As long as the Shelf Registration Statement remains effective, Tontine will have the ability to resell any or all of its registered shares from time to time in one or more offerings, as described in the Shelf Registration Statement and in any prospectus supplement filed in connection with an offering pursuant to the Shelf Registration Statement.

Should Tontine sell, exchange, or otherwise dispose of all or a portion of its position in IES, a change in ownership could occur. A change in ownership, as defined by Internal Revenue Code Section 382, could reduce the availability of net operating losses for federal and state income tax purposes. As of September 30, 2014 we had approximately \$459 million of federal NOLs that are available to use to offset taxable income, inclusive of NOLs from the amortization of additional tax goodwill. As of September 30, 2014 we had approximately \$317 million of federal NOLs that are available to use to offset taxable income, exclusive of NOLs from the amortization of additional tax goodwill. On January 28, 2013, the Company implemented a tax benefit protection plan (the NOL Rights Plan) that was designed to deter an acquisition of the Company's stock in excess of a threshold amount that could trigger a change of control within the meaning of Internal Revenue Code Section 382. The NOL Rights Plan was filed as an Exhibit to our Current Report on Form 8-K filed with the SEC on January 28, 2013 and any description thereof is qualified in its entirety by the terms of the NOL Rights Plan. There can be no assurance that the NOL Rights Plan will be effective in deterring a change of control or protecting or realizing the NOLs. Furthermore, a change in control would trigger the change of control provisions in a number of our material agreements, including our 2012 Credit Facility, bonding agreements with our sureties and our executive severance plan.

On February 13, 2013, we repaid the remaining \$10.0 million of principal and accrued interest we had outstanding on a term loan we had outstanding with Tontine.

On March 13, 2013, the Company announced the entry into the Agreement and Plan of Merger with MISCOR, which was amended by the First Amendment to Agreement and Plan of Merger, dated as of July 10, 2013 (as amended, the Merger Agreement). As of July 24, 2013, Tontine beneficially owned 49.9% of the issued and outstanding shares of MISCOR common stock. Given Tontine's significant holdings in both the Company and MISCOR, only the disinterested members of the IES Board of Directors voted on, and unanimously approved, the Merger Agreement. In addition, MISCOR established a special committee of independent directors that voted on and approved the Merger Agreement and recommended approval of the Merger Agreement by the MISCOR full board of directors. After receiving approval from the special committee, the disinterested members of the MISCOR board of directors unanimously approved the Merger Agreement. The merger was finalized on September 13, 2013. In connection with the merger, Tontine elected to receive stock consideration in exchange for 100% of its shares of MISCOR common stock tendered pursuant to the merger, such that, according to its amended Schedule 13D filed on September 13, 2013, its ownership of IES common stock increased from approximately 56.7% immediately prior to the merger to approximately 58.0% immediately following the merger.

On March 29, 2012, we entered into a sublease agreement with Tontine Associates, LLC, an affiliate of our controlling shareholder, for corporate office space in Greenwich, Connecticut. The lease originally extended from April 1, 2012 through March 31, 2014, with monthly payments due in the amount of \$6 thousand, and was

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renewed in March 2014 for a subsequent two-year term at the same monthly rate. The lease has terms at market rates and payments by the Company are at a rate consistent with that paid by Tontine Associates, LLC to its landlord.

James M. Lindstrom has served as Chief Executive Officer and President of the Company since October 3, 2011. Mr. Lindstrom previously served in such capacities on an interim basis beginning in June 2011 and has served as Chairman of the Company's Board of Directors since February 2011. Mr. Lindstrom was an employee of Tontine from 2006 until October 2011.

David B. Gendell has served as a member of the Company's Board of Directors since February 2012. Mr. Gendell, who is the brother of Jeffrey Gendell, the founder and managing member of Tontine, is also an employee of Tontine.

### **OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

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

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

Some of our customers and vendors require us to post letters of credit as a means of guaranteeing performance under our contracts and ensuring payment by us to subcontractors and vendors. If our customer has reasonable cause to effect payment under a letter of credit, we would be required to reimburse our creditor for the letter of credit. At September 30, 2014, \$0.6 million of our outstanding letters of credit were to collateralize our customers and vendors.

Some of the underwriters of our casualty insurance program require us to post letters of credit as collateral, as is common in the insurance industry. To date, we have not had a situation where an underwriter has had reasonable cause to effect payment under a letter of credit. At September 30, 2014, \$6.3 million of our outstanding letters of credit were to collateralize our insurance programs.

From time to time, we may enter into firm purchase commitments for materials such as copper wire and aluminum wire, among others, which we expect to use in the ordinary course of business. These commitments are typically for terms less than one year and require us to buy minimum quantities of materials at specified intervals at a fixed price over the term. As of September 30, 2014, 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.

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As of September 30, 2014, our future contractual obligations due by September 30 of each of the following fiscal years include (in thousands) (1):

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Long-term debt obligations	\$	\$	\$ 10,208	\$	\$ 10,208
Operating lease obligations	5,204	9,645	1,516	278	16,643
<b>Total</b>	<b>\$ 5,204</b>	<b>\$ 9,645</b>	<b>\$ 11,724</b>	<b>\$ 278</b>	<b>\$ 26,851</b>

(1) The tabular amounts exclude the interest obligations that will be created if the debt obligations are outstanding for the periods presented. Our other commitments expire by September 30 of each of the following fiscal years (in thousands):

	2015	2016	2017	Thereafter	Total
Standby letters of credit	\$ 6,918	\$	\$	\$	\$ 6,918
Other commitments					
<b>Total</b>	<b>\$ 6,918</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 6,918</b>

**CRITICAL ACCOUNTING POLICIES**

The discussion and analysis of our financial condition and results of operations are based on our Consolidated Financial Statements, which have been prepared in accordance with GAAP. The preparation of our Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities known to exist as of the date the Consolidated Financial Statements, and the reported amounts of revenues and expenses recognized during the periods presented. We review all significant estimates affecting our Consolidated Financial Statements on a recurring basis and record the effect of any necessary adjustments prior to their publication. Judgments and estimates are based on our beliefs and assumptions derived from information available at the time such judgments and estimates are made. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. There can be no assurance that actual results will not differ from those estimates.

Accordingly, we have identified the accounting principles which we believe are most critical to our reported financial status by considering accounting policies that involve the most complex or subjective decisions or assessments. We identified our most critical accounting policies to be those related to revenue recognition, the assessment of goodwill and asset impairment, our allowance for doubtful accounts receivable, the recording of our insurance liabilities and estimation of the valuation allowance for deferred tax assets, and unrecognized tax benefits. These accounting policies, as well as others, are described in Note 2, Summary of Significant Accounting Policies in the notes to our Consolidated Financial Statements, and at relevant sections in this discussion and analysis.

*Revenue Recognition.* We enter into contracts principally on the basis of competitive bids. We frequently negotiate the final terms and prices of those contracts with the customer. Although the terms of our contracts vary considerably, over 90% of our revenues are based on either a fixed price or unit price basis in which we agree to do the work for a fixed amount for the entire project (fixed price) or for units of work performed (unit price). Approximately 6% of our revenues are earned from contracts where we are paid on a time and materials basis, and from time to time, we may enter into contracts on a cost plus basis. Our most significant cost drivers are the cost of labor, the cost of materials and the cost of casualty and health insurance. These costs may vary from the costs we originally estimated. Variations from estimated contract costs along with other risks inherent in performing fixed price and unit price contracts may result in actual revenue and gross profits or interim projected

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revenue and gross profits for a project differing from those we originally estimated and could result in losses on projects. Depending on the size of a particular project, variations from estimated project costs could have a significant impact on our operating results for any fiscal quarter or year.

We complete most of our projects within one year. We frequently provide service and maintenance work under open-ended, unit price master service agreements which are renewable annually. We recognize revenue on service, time and material work when services are performed. Work performed under a construction contract generally provides that the customers accept completion of progress to date and compensate us for services rendered, measured in terms of units installed, hours expended or some other measure of progress. Revenues from construction contracts are recognized on the percentage-of-completion method. Revenues recognized on a percentage-of-completion basis, all of which are fixed price arrangements, comprised approximately 60% of our total revenue for the year ended December 31, 2014. The percentage-of-completion method for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total costs for each contract at completion. We generally consider contracts substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in job performance, job conditions, estimated contract costs, profitability and final contract settlements may result in revisions to costs and income, and the effects of such revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined.

The current asset *Costs and estimated earnings in excess of billings on uncompleted contracts* represents revenues recognized in excess of amounts billed that management believes will be billed and collected within the next twelve months. The current liability *Billings in excess of costs and estimated earnings on uncompleted contracts* represents billings in excess of revenues recognized. Costs and estimated earnings in excess of billings on uncompleted contracts are amounts considered recoverable from customers based on different measures of performance, including achievement of specific milestones, completion of specified units or completion of the contract. Also included in this asset, from time to time, are claims and unapproved change orders, which include amounts that we are in the process of collecting from our customers or agencies for changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price, or other related causes of unanticipated additional contract costs. Claims and unapproved change orders are recorded at estimated realizable value when collection is probable and can be reasonably estimated. We do not recognize profits on construction costs incurred in connection with claims. Claims made by us involve negotiation and, in certain cases, litigation. Such litigation costs are expensed as incurred.

*Valuation of Intangibles and Long-Lived Assets.* We evaluate goodwill for potential impairment at least annually at year end, however, if impairment indicators exist, we will evaluate as needed. In evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is greater than its carrying value. If we determine that it is more likely than not that the carrying value of a reporting unit is greater than its fair value, then we perform an impairment test by calculating the fair value of the reporting unit and comparing this calculated fair value with the carrying value of the reporting unit. Included in this evaluation are certain assumptions and estimates to determine the fair values of reporting units such as estimates of future cash flows and discount rates, as well as assumptions and estimates related to the valuation of other identified intangible assets. Changes in these assumptions and estimates or significant changes to the market value of our common stock could materially impact our results of operations or financial position. We did not record goodwill impairment during the years ended September 30, 2014, 2013 or 2012.

Each reporting period, we assess impairment indicators related to long-lived assets and intangible assets. If we determine impairment indicators exist, we conduct an evaluation to determine whether any impairment has occurred. This evaluation includes certain assumptions and estimates to determine fair value of asset groups, including estimates about future cash flows and discount rates, among others. Changes in these assumptions and

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estimates could materially impact our results of operations or financial projections. We recorded long-lived or intangible asset impairment during the years ended September 30, 2013 and 2012 of \$0.2 million and \$0.7 million, respectively, which was primarily attributable to real estate we sold at September 30, 2013. The impairment charges were recorded to reduce the carrying value of the property to its current expected fair value. No impairment charges were recorded in the year ended September 30, 2014.

*Current and Non-Current Accounts and Notes Receivable and Provision for Doubtful Accounts.* We provide an allowance for doubtful accounts for unknown collection issues, in addition to reserves for specific accounts receivable where collection is considered doubtful. Inherent in the assessment of the allowance for doubtful accounts are certain judgments and estimates including, among others, our customers' access to capital, our customers' willingness to pay, general economic conditions, and the ongoing relationships with our customers. In addition to these factors, the method of accounting for construction contracts requires the review and analysis of not only the net receivables, but also the amount of billings in excess of costs and costs in excess of billings. The analysis management utilizes to assess collectability of our receivables includes detailed review of older balances, analysis of days sales outstanding where we include in the calculation, in addition to accounts receivable balances net of any allowance for doubtful accounts, the level of costs in excess of billings netted against billings in excess of costs, and the ratio of accounts receivable, net of any allowance for doubtful accounts plus the level of costs in excess of billings, to revenues. These analyses provide an indication of those amounts billed ahead or behind the recognition of revenue on our construction contracts and are important to consider in understanding the operational cash flows related to our revenue cycle.

*Risk-Management.* We are insured for workers' compensation, automobile liability, general liability, construction defects, pollution, employment practices and employee-related health care claims, subject to deductibles. Our general liability program provides coverage for bodily injury and property damage. Losses up to the deductible amounts are accrued based upon our estimates of the liability for claims incurred and an estimate of claims incurred but not reported. The accruals are derived from actuarial studies, known facts, historical trends and industry averages utilizing the assistance of an actuary to determine the best estimate of the ultimate expected loss. We believe such accruals to be adequate; however, insurance liabilities are difficult to assess and estimate due to unknown factors, including the severity of an injury, the determination of our liability in proportion to other parties, the number of incidents incurred but not reported and the effectiveness of our safety program. Therefore, if actual experience differs from the assumptions used in the actuarial valuation, adjustments to the reserve may be required and would be recorded in the period that the experience becomes known.

*Valuation Allowance for Deferred Tax Assets.* We regularly evaluate valuation allowances established for deferred tax assets for which future realization is uncertain. We perform this evaluation quarterly. The estimation of required valuation allowances includes estimates of future taxable income. In assessing the realizability of deferred tax assets at September 30, 2014, we considered that it was more likely than not that some or all of the deferred tax assets would not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

*Income Taxes.* GAAP specifies the methodology by which a company must identify, recognize, measure and disclose in its financial statements the effects of any uncertain tax return reporting positions that it has taken or expects to take. GAAP requires financial statement reporting of the expected future tax consequences of uncertain tax return reporting positions on the presumption that all relevant tax authorities possess full knowledge of those tax reporting positions, as well as all of the pertinent facts and circumstances, but it prohibits discounting of any of the related tax effects for the time value of money.

The evaluation of a tax position is a two-step process. The first step is the recognition process to determine if it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The second step is a measurement process whereby a tax position

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that meets the more likely than not recognition threshold is calculated to determine the amount of benefit/expense to recognize in the financial statements. The tax position is measured at the largest amount of benefit/expense that is more likely than not of being realized upon ultimate settlement.

The Financial Accounting Standards Board, ( FASB ) has issued standards on business combinations and accounting and reporting of non-controlling interests in consolidated financial statements. Beginning October 1, 2009, with the adoption of the updates, reductions in the valuation allowance and contingent tax liabilities attributable to all periods, if any should occur, are recorded as an adjustment to income tax expense.

We are currently not under federal audit by the Internal Revenue Service. The tax years ended September 30, 2011 and forward are subject to audit as are prior tax years, to the extent of unutilized net operating losses generated in those years.

We anticipate that approximately \$6 thousand in liabilities for unrecognized tax benefits, including accrued interest, may be reversed in the next twelve months. This reversal is predominantly due to the expiration of the statutes of limitation for unrecognized tax benefits.

*New Accounting Pronouncements.* Recent accounting pronouncements are described in Note 2, *Summary of Significant Accounting Policies* *New Accounting Pronouncements* in the notes to our Consolidated Financial Statements, and at relevant sections in this discussion and analysis.

### **Item 7A. *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 labor costs, commodity prices for copper, aluminum, steel and fuel. Commodity price risks may have an impact on 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 on the 2012 Credit Facility. For additional information see *Risk Factors* in Item 1A of this Form 10-K.

#### **Commodity Risk**

Our exposure to significant market risks includes fluctuations in commodity prices for copper, aluminum, steel and fuel. Commodity price risks may have an impact on our results of operations due to fixed nature of many of our contracts. Over the long-term, we expect to be able to pass along a portion of these costs to our customers, as market conditions in the construction industry will allow.

#### **Interest Rate Risk**

We are subject to interest rate risk on our floating interest rate borrowings. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates.

While all of the long-term debt outstanding under our 2012 Credit Facility is structured on floating interest rate terms, approximately 90% of our long-term debt outstanding as of September 30, 2014 was effectively subject to fully floating interest rate terms after giving effect to our interest rate hedging arrangement. A one percentage point increase in the interest rates on our long-term debt outstanding under our 2012 Credit Facility as of September 30, 2014 would cause a \$0.1 million pre-tax annual increase in interest expense.

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**Item 8. *Financial Statements and Supplementary Data***

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Integrated Electrical Services, Inc.

We have audited the accompanying consolidated balance sheets of Integrated Electrical Services, Inc. and subsidiaries ( the Company ) as of September 30, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Integrated Electrical Services, Inc. and subsidiaries at September 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ ERNST & YOUNG LLP

Houston, Texas

December 12, 2014



**Table of Contents****INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(In Thousands, Except Share Information)**

	September 30, 2014	September 30, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 47,342	\$ 20,757
Accounts receivable:		
Trade, net of allowance of \$780 and \$980, respectively	77,459	73,540
Retainage	15,442	17,473
Inventories	16,048	20,147
Costs and estimated earnings in excess of billings on uncompleted contracts	8,591	8,336
Prepaid expenses and other current assets	3,075	3,772
Total current assets	167,957	144,025
PROPERTY AND EQUIPMENT, net	10,188	10,414
GOODWILL	14,993	13,924
INTANGIBLE ASSETS	3,503	4,138
OTHER NON-CURRENT ASSETS	4,467	6,751
Total assets	\$ 201,108	\$ 179,252
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt		3,562
Accounts payable and accrued expenses	74,032	74,320
Billings in excess of costs and estimated earnings on uncompleted contracts	21,852	20,676
Total current liabilities	95,884	98,558
LONG-TERM DEBT, net of current maturities	10,208	10,210
OTHER NON-CURRENT LIABILITIES	7,044	7,998
Total liabilities	113,136	116,766
<b>STOCKHOLDERS EQUITY:</b>		
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; 22,049,529 and 18,203,379 shares issued and 21,767,700 and 17,944,322 outstanding, respectively	220	182
Treasury stock, at cost, 281,829 and 259,057 shares, respectively	(2,394)	(2,332)
Additional paid-in capital	194,719	174,514
Accumulated other comprehensive income	(2)	17
Retained deficit	(104,571)	(109,895)
Total stockholders equity	87,972	62,486
Total liabilities and stockholders equity	\$ 201,108	\$ 179,252

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

**Table of Contents****INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****(In Thousands, Except Share Information)**

	Years Ended September 30,		
	2014	2013	2012
Revenues	\$ 512,395	\$ 494,593	\$ 456,115
Cost of services	429,269	427,633	398,063
Gross profit	83,126	66,960	58,052
Selling, general and administrative expenses	75,571	66,598	58,609
Gain on sale of assets	(86)	(64)	(168)
Income (loss) from operations	7,641	426	(389)
Interest and other (income) expense:			
Interest expense	1,574	1,771	2,324
Other (income) expense, net	(203)	507	(96)
Income (loss) from continuing operations before income taxes	6,270	(1,852)	(2,617)
Provision for income taxes	748	326	38
Net income (loss) from continuing operations	\$ 5,522	\$ (2,178)	\$ (2,655)
Discontinued operations (Note 19)			
Loss from discontinued operations	(198)	(1,395)	(9,158)
Benefit for income taxes			(11)
Net loss from discontinued operations	(198)	(1,395)	(9,147)
Net income (loss)	\$ 5,324	\$ (3,573)	\$ (11,802)
Unrealized gain (loss) on interest hedge, net of tax	(19)	17	
Comprehensive income (loss)	\$ 5,305	\$ (3,556)	\$ (11,802)
Income (loss) per share:			
Continuing operations	\$ 0.30	\$ (0.14)	\$ (0.18)
Discontinued operations	\$ (0.01)	\$ (0.09)	\$ (0.60)
Basic	\$ 0.29	\$ (0.23)	\$ (0.78)
Diluted income (loss) per share:			
Continuing operations	\$ 0.30	\$ (0.14)	\$ (0.18)
Discontinued operations	\$ (0.01)	\$ (0.09)	\$ (0.60)
Diluted	\$ 0.29	\$ (0.23)	\$ (0.78)
Shares used in the computation of income (loss) per share			
Basic	18,417,564	15,460,424	15,123,052
Diluted	18,473,420	15,460,424	15,123,052

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



**Table of Contents****INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity****(In Thousands, Except Share Information)**

	Common Stock		Treasury Stock		APIC	Accumulated Other Comprehensive Income (Loss)	Retained Deficit	Total Stockholders Equity
	Shares	Amount	Shares	Amount				
BALANCE, September 30, 2011	15,407,802	\$ 154	(451,329)	\$ (5,595)	\$ 164,263	\$	\$ (94,520)	\$ 64,302
Restricted stock grant			107,500	1,322	(1,322)			
Forfeiture of restricted stock			(32,277)	(92)	92			
Acquisition of treasury stock			(54,296)	(181)				(181)
Non-cash compensation					838			838
Net loss							(11,802)	(11,802)
<b>BALANCE, September 30, 2012</b>	<b>15,407,802</b>	<b>\$ 154</b>	<b>(430,402)</b>	<b>\$ (4,546)</b>	<b>\$ 163,871</b>	<b>\$</b>	<b>\$ (106,322)</b>	<b>\$ 53,157</b>
Restricted stock grant			266,814	2,649	(2,649)			
Acquisition of treasury stock			(95,469)	(435)				(435)
Non-cash compensation					1,430			1,430
Interest rate swap						17		17
Issuance of stock related to acquisition	2,795,577	28			11,862			11,890
Net loss							(3,573)	(3,573)
<b>BALANCE, September 30, 2013</b>	<b>18,203,379</b>	<b>\$ 182</b>	<b>(259,057)</b>	<b>\$ (2,332)</b>	<b>\$ 174,514</b>	<b>\$</b>	<b>\$ (109,895)</b>	<b>\$ 62,486</b>
Restricted stock grant			13,500	117	(117)			
Acquisition of treasury stock			(36,272)	(179)				(179)
Non-cash compensation					711			711
Interest rate swap						(19)		(19)
Shares issued in rights offering	3,846,150	38			19,611			19,649
Net income (loss)							5,324	5,324
<b>BALANCE, September 30, 2014</b>	<b>22,049,529</b>	<b>\$ 220</b>	<b>(281,829)</b>	<b>\$ (2,394)</b>	<b>\$ 194,719</b>	<b>\$</b>	<b>(2)</b>	<b>\$ (104,571)</b>

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

**Table of Contents****INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(In Thousands)**

	Years Ended September 30,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 5,324	\$ (3,573)	\$ (11,802)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Bad debt expense	170	4	(858)
Deferred financing cost amortization	385	286	209
Depreciation and amortization	2,526	2,552	2,146
Loss on sale of assets	218	119	44
Non-cash compensation expense	711	1,430	838
Impairment		1,475	688
Deferred income taxes			(39)
Changes in operating assets and liabilities			
Accounts receivable	(4,137)	3,987	11,130
Inventories	3,788	2,523	(6,698)
Costs and estimated earnings in excess of billings on uncompleted contracts	(256)	(155)	1,782
Prepaid expenses and other current assets	2,295	670	(273)
Other non-current assets	592	(625)	211
Accounts payable and accrued expenses	39	(1,201)	(10,114)
Billings in excess of costs and estimated earnings on uncompleted contracts	1,176	(4,579)	5,670
Other non-current liabilities	(233)	(959)	(305)
Net cash provided by (used in) operating activities	12,598	1,954	(7,371)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(1,982)	(444)	(1,877)
Proceeds from sales of property and equipment		829	
Cash paid in conjunction with business combination		(5,155)	
Net cash used in investing activities	(1,982)	(4,770)	(1,877)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Borrowings of debt		15,167	
Repayments of debt	(3,502)	(17,042)	(264)
Purchase of treasury stock	(179)	(436)	(181)
Change in restricted cash		7,155	(7,155)
Issuance of shares through rights offering	19,650		
Net cash provided by (used in) financing activities	15,969	4,844	(7,600)
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	26,585	2,028	(16,848)
CASH AND CASH EQUIVALENTS, beginning of period	20,757	18,729	35,577
CASH AND CASH EQUIVALENTS, end of period	\$ 47,342	\$ 20,757	\$ 18,729
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for interest	2014 \$ 1,149	2013 \$ 1,115	2012 \$ 1,646

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Cash paid for income taxes	\$	732	\$	496	\$	436
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The accompanying notes are an integral part of these Consolidated Financial Statements.

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**INTEGRATED ELECTRICAL SERVICES, INC.**

**Notes to Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

**1. BUSINESS**

*Description of the Business*

Integrated Electrical Services, Inc. is a holding company that owns and manages operating subsidiaries in business activities across a variety of end markets. Our operations are currently organized into four principal business segments, based upon the nature of our current products and services:

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

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

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

Infrastructure Solutions Provider of industrial and rail services, and electrical and mechanical solutions to domestic and international customers. This segment was created in connection with the September 2013 acquisition of MISCOR.

The words IES, the Company, we, our, and us refer to Integrated Electrical Services, Inc. and, except as otherwise specified herein, to our wholly-owned subsidiaries.

Our Communications segment is a leading provider of network infrastructure products and services for data centers and other mission critical environments. Services offered include the design, installation and maintenance of network infrastructure for the financial, medical, hospitality, government, high-tech manufacturing, educational and information technology industries. We also provide the design and installation of audio/visual, telephone, fire, wireless and intrusion alarm systems as well as design/build, service and maintenance of data network systems. We perform services across the United States from our 11 offices, which include our Communications headquarters located in Tempe, Arizona, allowing for dedicated onsite maintenance teams at our customers' sites.

Our Residential segment provides electrical installation services for single-family housing and multi-family apartment complexes and CATV cabling installations for residential and light commercial applications. In addition to our core electrical construction work, the Residential segment has expanded its offerings by providing services for the installation of residential solar power, smart meters, electric car charging stations and stand-by generators, both for new construction and existing residences. The Residential segment is made up of 23 locations, which include our Residential headquarters in Houston. These segment locations geographically cover Texas, the Sun-Belt, and the Western and Mid-Atlantic regions of the United States, including Hawaii.

Our Commercial & Industrial segment is one of the largest providers of electrical contracting services in the United States. The segment offers a broad range of electrical design, construction, renovation, engineering and maintenance services to the commercial and industrial markets. The Commercial & Industrial segment consists of 19 locations, which include our Commercial & Industrial headquarters in Houston, Texas. These locations geographically cover Texas, Nebraska, Colorado, Oregon and the Mid-Atlantic region. Services include the design of electrical systems within a building or complex, procurement and installation of wiring and connection to power sources, end-use equipment and fixtures, as well as contract maintenance. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house experts, or projects which require specific market expertise, such as transmission and distribution and power generation





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**INTEGRATED ELECTRICAL SERVICES, INC.**

**Notes to Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

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 commercial and industrial projects, and maintenance services which generally provide recurring revenues that are typically less affected by levels of construction activity.

Our Infrastructure Solutions segment provides maintenance and repair services, including electric motor repair and rebuilding for the steel, railroad, marine, petrochemical, pulp and paper, wind energy, mining, automotive and power generation industries. Infrastructure Solutions repairs and services industrial lifting magnets for the steel and scrap industries, provides locomotive maintenance, remanufacturing, and repair services to the rail industry, and manufactures and rebuilds power assemblies, engine parts, and other components for large diesel engines. Infrastructure Solutions is comprised of nine locations, headquartered in Ohio. These segment locations geographically cover Alabama, Indiana, Ohio, West Virginia, Maryland and California.

*Controlling Shareholder*

At September 30, 2014, Tontine Capital Partners, L.P. and its affiliates (collectively, "Tontine"), was the controlling shareholder of the Company's common stock. Accordingly, Tontine has the ability to exercise significant control over our affairs, including the election of directors and most actions requiring the approval of shareholders, including the approval of any potential merger or sale of all or substantially all assets or segments of the Company, or the Company itself. For a more complete discussion on our relationship with Tontine, please refer to Note 3, "Controlling Shareholder" in the notes to our Consolidated Financial Statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of IES and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Asset Impairment*

During the fiscal year ended September 30, 2014, the Company incurred no asset impairment charges.

During the fiscal years ended September 30, 2013 and 2012, the Company recorded pretax non-cash asset impairment charges of \$200 and \$688, respectively, related to real estate held by our Commercial & Industrial segment. The real estate was held within a location selected for closure during 2011. This impairment was to adjust the carrying value of real estate held for sale to the estimated market value less expected selling expenses. The real estate was sold on September 30, 2013. The impairment charges are included in our net loss from discontinued operations within our Consolidated Statements of Comprehensive Income.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires the use of estimates and assumptions by management in 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

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**INTEGRATED ELECTRICAL SERVICES, INC.**

**Notes to Consolidated Financial Statements**

**(All Amounts in Thousands Except Share Amounts)**

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

*Cash and Cash Equivalents*

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

*Inventories*

Inventories generally consist of raw materials, work in process, finished goods, and parts and supplies held for use in the ordinary course of business. Inventory is valued at the lower of cost or market generally using the historical average cost or first-in, first-out (FIFO) method. When circumstances dictate, we write down inventory to its estimated realizable value based on assumptions about future demand, market conditions, plans for disposal, and physical condition of the product. Where shipping and handling costs on inventory purchases are borne by us, these charges are included in inventory and charged to cost of services upon use in our projects or the providing of services.

*Securities and Equity Investments*

Our investments in entities where we do not have the ability to exercise significant influence are accounted for using the cost method of accounting. Each period, we evaluate whether an event or change in circumstances has occurred that may indicate an investment has been impaired. If, upon further investigation of such events, we determine the investment has suffered a decline in value that is other than temporary, we write down the investment to its estimated fair value.

*Long-Term Receivables*

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

*Property and Equipment*

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

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

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**(All Amounts in Thousands Except Share Amounts)**

*Goodwill*

Goodwill attributable to each reporting unit is tested for impairment by comparing the fair value of each reporting unit with its carrying value. These impairment tests are required to be performed at least annually. On an ongoing basis (absent any impairment indicators), we perform an impairment test annually using a measurement date of September 30. In evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is greater than its carrying value. If we determine that it is more likely than not that the carrying value of a reporting unit is greater than its fair value, then we perform an impairment test by calculating the fair value of the reporting unit and comparing this calculated fair value with the carrying value of the reporting unit.

We estimate the fair value of the reporting unit based on both a market approach and an income approach, using discounted estimated future cash flows. The market approach uses market multiples of enterprise value to earnings before interest, taxes, depreciation and amortization for comparable publicly traded companies. The income approach relies on significant estimates for future cash flows, projected long-term growth rates, and the weighted average cost of capital.

*Intangible Assets*

Intangible assets with definite lives are amortized over their estimated useful lives based on expected economic benefit with no residual value. Customer relationships are amortized assuming gradual attrition. Intangible assets with indefinite lives are not subject to amortization. We perform a test for impairment annually, or more frequently when indicators of impairment are present.

*Debt Issuance Costs*

Debt issuance costs are included in other noncurrent assets and are amortized to interest expense over the scheduled maturity of the debt. Amortization expense of debt issuance costs was \$385, \$522 and \$568, respectively, for the years ended 2014, 2013 and 2012. Remaining unamortized capitalized debt issuance costs were \$1,158 and \$1,449 at September 30, 2014, and September 30, 2013, respectively.

*Revenue Recognition*

Revenue is generally recognized once the following four criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or services have been rendered, (iii) the price of the product or service is fixed and determinable, and (iv) collectability is reasonably assured. Costs associated with these products and services are recognized within the period they are incurred.

We recognize revenue on project contracts using the percentage of completion method. Project contracts generally provide that customers accept completion of progress to date and compensate us for services rendered measured in terms of units installed, hours expended or some other measure of progress. We recognize revenue on both signed contracts and change orders. A discussion of our treatment of claims and unapproved change orders is described later in this section. Percentage of completion for construction contracts is measured principally by the percentage of costs incurred and accrued to date for each contract to the estimated total cost for each contract at completion. We generally consider contracts to be substantially complete upon departure from the work site and acceptance by the customer. Contract costs include all direct material, labor and insurance costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. Changes in job performance, job conditions, estimated contract costs and profitability and

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final contract settlements may result in revisions to costs and income and the effects of these revisions are recognized in the period in which the revisions are determined. Provisions for total estimated losses on uncompleted contracts are made in the period in which such losses are determined. The balances billed but not paid by customers pursuant to retainage provisions in project contracts will be due upon completion of the contracts and acceptance by the customer. Based on our experience, the retention balance at each balance sheet date will be collected within the subsequent fiscal year.

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

The current asset *Costs and estimated earnings in excess of billings on uncompleted contracts* represents revenues recognized in excess of amounts billed which management believes will generally be billed and collected within the next twelve months. Also included in this asset, from time to time, are claims and unapproved change orders which are amounts we are in the process of collecting from our customers or agencies for changes in contract specifications or design, contract change orders in dispute or unapproved as to scope and price, or other related causes of unanticipated additional contract costs. Claims are limited to costs incurred and are recorded at estimated realizable value when collection is probable and can be reasonably estimated. We do not recognize profits on project costs incurred in connection with claims. Claims made by us involve negotiation and, in certain cases, litigation. Such litigation costs are expensed as incurred. As of September 30, 2014, 2013 and 2012, there were no material revenues recorded associated with any outstanding claims. The current liability *Billings in excess of costs and estimated earnings on uncompleted contracts* represents billings in excess of revenues recognized. Costs and estimated earnings in excess of billings on uncompleted contracts are amounts considered recoverable from customers based on different measures of performance, including achievement of specific milestones, completion of specified units or at the completion of the contract.

*Accounts Receivable and Allowance for Doubtful Accounts*

We record accounts receivable for all amounts billed and not collected. Generally, we do not charge interest on outstanding accounts receivable; however, from time to time we may believe it necessary to charge interest on a case by case basis. Additionally, we provide an allowance for doubtful accounts for specific accounts receivable where collection is considered doubtful as well as for general unknown collection issues based on historical trends. Accounts receivable not determined to be collectible are written off as deemed necessary in the period such determination is made. As is common in our industry, some of these receivables are in litigation or require us to exercise our contractual lien rights in order to collect. These receivables are primarily associated with a few divisions within our Commercial & Industrial segment. Certain other receivables are slow-pay in nature and require us to exercise our contractual or lien rights. We believe that our allowance for doubtful accounts is sufficient to cover uncollectible receivables as of September 30, 2014.

*Comprehensive Income*

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

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