INTEGRATED ELECTRICAL SERVICES INC
Form 10-Q
May 13, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

OR

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

For the transition period from __________ to __________

Commission File Number 1-13783

Integrated Electrical Services, Inc.

(Exact name of registrant as specified in its charter)

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

5433 Westheimer Road, Suite 500, Houston, Texas 77056

(Address of principal executive offices and ZIP code)

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

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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

On May 13, 2013, there were 15,105,846 shares of common stock outstanding.

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

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PART I

DEFINITIONS

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes certain statements that may be deemed forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, all of which are based upon various estimates and assumptions that the Company believes to be reasonable as of the date hereof. These statements discuss future expectations, contain projections of financial condition of results of operation, or state other forward-looking information. In some cases, you can identify forward-looking statements by terminology such as may, will, could, should, expect, plan, project, intend, anticipate, believe, predict, potential, pursue, target, continue, the negative of such terms or other comparable terminology. These statements involve risks and uncertainties that could cause the Company s actual future outcomes to differ materially from those set forth in such statements. Such risks and uncertainties include, but are not limited to:

- fluctuations in operating activity due to downturns in levels of construction, seasonality and differing regional economic conditions;
- competition in our respective industries, both from third parties and former employees, which could result in the loss of one or more customers or lead to lower margins on new projects;
- a general reduction in the demand for our services;
- a change in the mix of our customers, contracts and business;
- our ability to successfully manage projects;
- possibility of errors when estimating revenue and progress to date on percentage-of-completion contracts;
- inaccurate estimates used when entering into fixed-priced contracts;
- challenges integrating new businesses into the Company or new types of work or new processes into our divisions;
- the cost and availability of qualified labor;
- accidents resulting from the physical hazards associated with our work and the potential for accidents;
- success in transferring, renewing and obtaining electrical and construction licenses;

our ability to pass along increases in the cost of commodities used in our business, in particular, copper, aluminum, steel, fuel and certain plastics;

potential supply chain disruptions due to credit or liquidity problems faced by our suppliers;

loss of key personnel and effective transition of new management;

warranty losses, damages or other latent defect claims in excess of our existing reserves and accruals;

warranty losses or other unexpected liabilities stemming from former divisions which we have sold or closed;

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

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

difficulty in fulfilling the covenant terms of our credit facilities;

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

increases in bad debt expense and days sales outstanding due to liquidity problems faced by our customers;

changes in the assumptions made regarding future events used to value our stock options and performance-based stock awards;

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

uncertainties inherent in estimating future operating results, including revenues, operating income or cash flow;

disagreements with taxing authorities with regard to tax positions we have adopted;

the recognition of tax benefits related to uncertain tax positions;

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

the financial impact of new or proposed accounting regulations;

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

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

credit and capital market conditions, including changes in interest rates that affect the cost of construction financing and mortgages, and the inability for some of our customers to retain sufficient financing which could lead to project delays or cancellations, and potentially impede the collectability of our accounts receivable;

the sale or disposition of the shares of our common stock held by our majority shareholder, which, under certain circumstances, would trigger change of control provisions in contracts such as employment agreements and financing and surety arrangements;

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

the successful integration of acquisitions;

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

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

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You should understand that the foregoing, as well as other risk factors discussed in this document, including those listed in Part I, Item 1A of this report under the heading *Risk Factors* as well as the other risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, and in our Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, could cause future outcomes to differ materially from those experienced previously or those expressed in such forward-looking statements. We undertake no obligation to publicly update or revise any information, including information concerning our controlling shareholder, net operating losses, restructuring efforts, borrowing availability, cash position, pro forma financial statements or any forward-looking statements to reflect events or circumstances that may arise after the date of this report. Forward-looking statements are provided in this Quarterly Report on Form 10-Q pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of the estimates, assumptions, uncertainties and risks described herein.

INDUSTRY AND MARKET DATA

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In Thousands, Except Share Information)

	March 31, 2013	September 30, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,458	$ 18,729
Restricted cash	7,052	7,155
Accounts receivable:		
Trade, net of allowance of $1,301 and $1,788, respectively	72,745	76,259
Retainage	15,205	17,004
Inventories	12,109	15,141
Costs and estimated earnings in excess of billings on uncompleted contracts	6,647	8,180
Assets held for sale	1,110	1,110
Prepaid expenses and other current assets	4,257	3,807
Total current assets	132,583	147,385
LONG-TERM RECEIVABLE, net of allowance of $0 and $0, respectively	213	259
PROPERTY AND EQUIPMENT, net	5,720	6,480
GOODWILL	8,574	4,446
INTANGIBLE ASSETS, net of amortization of $82	808	
GOODWILL AND INTANGIBLE ASSETS	9,382	4,446
OTHER NON-CURRENT ASSETS, net	5,355	6,143
Total assets	$ 153,253	$ 164,713
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 4,163	$ 456
Current maturities of long-term debt, related party		10,000
Current maturities of long-term debt, total	4,163	10,456
Accounts payable and accrued expenses	66,667	68,673
Billings in excess of costs and estimated earnings on uncompleted contracts	20,220	25,255
Total current liabilities	91,050	104,384
LONG-TERM DEBT, net of current maturities	2,292	24
LONG-TERM DEFERRED TAX LIABILITY	285	285
OTHER NON-CURRENT LIABILITIES	6,606	6,863
Total liabilities	100,233	111,556
STOCKHOLDERS EQUITY:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued and outstanding		
Common stock, $0.01 par value, 100,000,000 shares authorized; 15,407,802 and 15,407,802 shares issued and 15,105,846 and 14,977,400 outstanding, respectively	154	154
Treasury stock, at cost, 301,956 and 430,402 shares, respectively	(2,839)	(4,546)

Additional paid-in capital	162,590	163,871
Accumulated other comprehensive income	27	
Retained deficit	(106,912)	(106,322)
Total stockholders equity	53,020	53,157
Total liabilities and stockholders equity	$ 153,253	$ 164,713

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In Thousands, Except Share Information)

	Three Months Ended March 31, 2013	2012
Revenues	$ 121,995	$ 107,608
Cost of services	105,999	93,819
Gross profit	15,996	13,789
Selling, general and administrative expenses	16,606	14,407
Gain on sale of assets	(21)	(19)
Loss from operations	(589)	(599)
Interest and other (income) expense:		
Interest expense	449	543
Interest income	(113)	(8)
Other (income) expense, net	(38)	1
Interest and other expense, net	298	536
Loss from continuing operations before income taxes	(887)	(1,135)
Provision (benefit) for income taxes	53	51
Net loss from continuing operations	$ (940)	$ (1,186)
Discontinued operations (Note 12)		
Loss from discontinued operations	(152)	(2,214)
(Benefit) provision for income taxes	9	31
Net loss from discontinued operations	(161)	(2,245)
Net loss	$ (1,101)	$ (3,431)
Unrealized gain on interest hedge, before tax	27	
Income tax related to unrealized gain on interest hedge		
Comprehensive loss	$ (1,074)	$ (3,431)
Loss per share:		
Continuing operations	$ (0.06)	$ (0.08)
Discontinued operations	$ (0.01)	$ (0.15)
Basic	$ (0.07)	$ (0.23)
Diluted loss per share:		
Continuing operations	$ (0.06)	$ (0.08)
Discontinued operations	$ (0.01)	$ (0.15)
Diluted	$ (0.07)	$ (0.23)

Shares used in the computation of loss per share		
Basic	14,909,896	14,638,678
Diluted	14,909,896	14,638,678

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In Thousands, Except Share Information)

	Six Months Ended March 31,	
	2013	2012
Revenues	$ 249,259	$ 216,606
Cost of services	215,283	189,624
Gross profit	33,976	26,982
Selling, general and administrative expenses	31,528	27,091
Gain on sale of assets	(40)	(155)
Income from operations	2,488	46
Interest and other (income) expense:		
Interest expense	1,055	1,088
Interest income	(125)	(15)
Other (income) expense, net	1,696	(64)
Interest and other expense, net	2,626	1,009
Loss from continuing operations before income taxes	(138)	(963)
Provision (benefit) for income taxes	168	32
Net loss from continuing operations	$ (306)	$ (995)
Discontinued operations (Note 12)		
Loss from discontinued operations	(290)	(5,940)
(Benefit) provision for income taxes	(6)	218
Net loss from discontinued operations	(284)	(6,158)
Net loss	$ (590)	$ (7,153)
Unrealized gain on interest hedge, before tax	27	
Income tax related to unrealized gain on interest hedge		
Comprehensive loss	$ (563)	$ (7,153)
Loss per share:		
Continuing operations	$ (0.02)	$ (0.07)
Discontinued operations	$ (0.02)	$ (0.42)
Basic	$ (0.04)	$ (0.49)
Diluted loss per share:		
Continuing operations	$ (0.02)	$ (0.07)
Discontinued operations	$ (0.02)	$ (0.42)
Diluted	$ (0.04)	$ (0.49)

Shares used in the computation of loss per share		
Basic	14,855,313	14,603,693
Diluted	14,855,313	14,603,693

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

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INTEGRATED ELECTRICAL SERVICES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In Thousands)

	Six Months Ended March 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (590)	$ (7,153)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt expense	(488)	(576)
Deferred financing cost amortization	(353)	(9)
Depreciation and amortization	1,078	1,058
Reserve for uncollectible surety deposit	1,725	
Loss (gain) on sale of assets	32	(9)
Share based compensation expense	773	276
Unrealized gain on interest swap	27	
Changes in operating assets and liabilities		
Accounts receivable	1,063	16,829
Inventories, net	3,032	(3,276)
Costs and estimated earnings in excess of billings	1,533	209
Prepaid expenses and other current assets	880	(571)
Other non-current assets	82	(40)
Increase, (decrease) in-		
Accounts payable and accrued expenses	(3,367)	(14,131)
Billings in excess of costs and estimated earnings	(5,035)	(504)
Other non-current liabilities	686	98
Net cash provided by (used in) operating activities	1,078	(7,799)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(46)	(978)
Cash paid in conjunction with business combination	(828)	
Net cash provided by (used in) investing activities	(874)	(978)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of debt	(10,233)	(128)
Issuance of debt	5,000	
Purchase of treasury stock	(346)	(94)
Change in restricted cash	104	(8,812)
Net cash used in financing activities	(5,475)	(9,034)
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	(5,271)	(17,811)
CASH AND CASH EQUIVALENTS, beginning of period	18,729	35,577
CASH AND CASH EQUIVALENTS, end of period	$ 13,458	$ 17,766

	2013	2012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest, net	$ 299	$ 560

Cash paid for income taxes	$	142	$	137

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

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

1. BUSINESS

Description of the Business

Integrated Electrical Services, Inc., a Delaware corporation, is a leading provider of infrastructure services to the residential, commercial and industrial industries as well as for data centers and other mission critical environments. We operate primarily in the electrical infrastructure markets, with a corporate focus on expanding into other markets through strategic acquisitions or investments. Originally established as IES in 1997, we provide services from our 56 domestic locations as of March 31, 2013. Our operations are organized into three principal business segments, based upon the nature of our current products and services:

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

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

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

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

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

Our Residential segment provides electrical installation services for single-family housing and multi-family apartment complexes and CATV cabling installations for residential and light commercial applications. In addition to our core electrical construction work, the Residential segment has expanded its offerings by providing services for the installation of residential solar power, smart meters, electric car charging stations and stand-by generators, both for new construction and existing residences. The Residential segment is made up of 28 total locations, which includes our Residential headquarters in Houston. These segment locations geographically cover Texas, California, the Sun-Belt, and the Western and Mid-Atlantic regions of the United States, including Hawaii.

Our Commercial & Industrial segment is one of the largest providers of electrical contracting services in the United States. The segment offers a broad range of electrical design, construction, renovation, engineering and maintenance services to the commercial and industrial markets. The Commercial & Industrial segment consists of 18 total locations, which includes our Commercial & Industrial headquarters in Houston, Texas. These locations geographically cover Texas, Nebraska, Colorado, Oregon and the Mid-Atlantic region. Services include the design of electrical systems within a building or complex, procurement and installation of wiring and connection to power sources, end-use equipment and fixtures, as well as contract maintenance. We focus on projects that require special expertise, such as design-and-build projects that utilize the capabilities of our in-house experts, or projects which require specific market expertise, such as transmission and distribution and power generation facilities. We also focus on service, maintenance and certain renovation and upgrade work, which tends to be either recurring or have lower sensitivity to economic cycles, or both. We provide services for a variety of projects, including: high-rise residential and office buildings, power plants, manufacturing facilities, data centers, chemical plants, refineries, wind farms, solar facilities, municipal infrastructure and health care facilities, and residential developments. Our utility services consist of overhead and underground installation and maintenance of electrical and

other utilities transmission and distribution networks, installation and splicing of high-voltage transmission and distribution lines, substation construction and substation and right-of-way maintenance. Our maintenance services generally provide recurring revenues that are typically less affected by levels of construction activity. Service and maintenance revenues are derived from service calls and routine maintenance contracts, which tend to be recurring and less sensitive to short term economic fluctuations.

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Sale of Non-Strategic Manufacturing Facility

On November 30, 2010, a subsidiary of the Company sold substantially all the assets and certain liabilities of a non-strategic manufacturing facility engaged in manufacturing and selling fabricated metal buildings housing electrical equipment, such as switchgears, motor starters and control systems, to Siemens Energy, Inc. As part of this transaction, Siemens Energy, Inc. also acquired the real property upon which the fabrication facilities are located from a subsidiary of the Company. The transaction was completed on December 10, 2010 for a purchase price of $10,086 at which time we recognized a gain of $6,763.

Sale of Non-Core Electrical Distribution Facility

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

Related Party Transactions

On December 12, 2007, we entered into a $25,000 senior subordinated loan agreement with Tontine Capital Partners, L.P. and its affiliates (collectively, Tontine), our controlling shareholder (the Tontine Term Loan). The Tontine Term Loan bore interest at 11.0% per annum and was due on May 15, 2013. Interest was payable quarterly in cash or in-kind at our option. Any interest paid in-kind also bore interest at 11.0% in addition to the loan principal. On April 30, 2010, we prepaid $15,000 of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to Tontine Capital Overseas Master Fund II, L.P, also a related party. On February 13, 2013, we repaid the remaining $10,000 of principal on the Tontine Term Loan with existing cash on hand and proceeds from our $5,000 term loan with Wells Fargo Bank, National Association (Wells Fargo).

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

While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, Tontine is party to a Registration Rights Agreement with the Company under which it has the ability, subject to certain restrictions, to demand registration of its shares in order to permit unrestricted sales of those shares. On February 20, 2013, pursuant to the Registration Rights Agreement, Tontine delivered a request to the Company for registration of all of its shares of IES common stock, and on February 21, 2013, the Company filed a shelf registration statement (as amended, the Shelf Registration Statement) to register Tontine s shares. The Shelf Registration Statement has not been declared effective, and remains subject to review and comment, by the SEC. Once the Shelf Registration Statement is declared effective and for so long as it remains effective, Tontine will have the ability to resell any or all of its shares from time to time in one or more offerings, as described in the Shelf Registration Statement and in any prospectus supplement filed in connection with an offering pursuant to the Shelf Registration Statement.

On March 13, 2013, the Company and MISCOR Group, Ltd., an Indiana corporation, (MISCOR) announced that they had entered into an Agreement and Plan of Merger, dated March 13, 2013 (the Merger Agreement), pursuant to which IES will acquire 100% of the common stock of MISCOR in a stock and cash transaction. As of March 31, 2013, Tontine beneficially owned 49.9% of the issued and outstanding shares of MISCOR common stock. Given Tontine s significant holdings in both the Company and MISCOR, only the disinterested members of the IES Board of Directors voted on, and unanimously approved, the Merger Agreement. In addition, MISCOR established a special committee of independent directors that voted on and approved the Merger Agreement and recommended approval of the Merger Agreement by the full MISCOR board of directors. After receiving approval from the special committee, the disinterested members of the MISCOR board of directors unanimously approved the Merger Agreement. For additional information on the proposed Merger with MISCOR, please see Subsequent Events

below.

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

INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Summary of Significant Accounting Policies

These unaudited consolidated financial statements reflect, in the opinion of management, all adjustments necessary to present fairly the financial position as of, and the results of operations for, the periods presented. All adjustments are considered to be normal and recurring unless otherwise described herein. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. During interim periods, we follow the same accounting policies disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. Please refer to the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, when reviewing our interim financial results set forth herein.

Adoption of New Accounting Pronouncement

In June 2011, the FASB issued amended authoritative guidance associated with comprehensive income, which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in equity.

In December 2011, the FASB deferred the effective date of the specific requirement to present items that are reclassified out of accumulated other comprehensive income to net income alongside their respective components of net income and other comprehensive income.

We will adopt this requirement effective October 1, 2013. This amendment to the authoritative guidance associated with comprehensive income was effective for the Company on October 1, 2012 and have been applied retrospectively. We have adopted a single continuous statement of comprehensive income.

Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, notes receivable, investments, accounts payable, a line of credit, notes payable issued to finance our insurance policies, and a term loan with Wells Fargo Bank. We believe that the carrying value of financial instruments, with the exception of the Tontine Term Loan and our cost method investment in EnerTech Capital Partners II L.P. (EnerTech), in the accompanying Consolidated Balance Sheets approximates their fair value due to their short-term nature. While the carrying value of the Tontine Term Loan was zero at March 31, 2013, we estimated the fair value using level 3 inputs, including an estimated interest rate reflecting current market conditions during prior periods. For additional information, please refer to Note 4, Debt *The Tontine Term Loan* in the Notes to these Consolidated Financial Statements.

We estimate that the fair value of our investment in EnerTech (Level 3) is $1,045 at March 31, 2013. For additional information, please refer to Note 8, Securities and Equity Investments *Investment in EnerTech-Capital Partners II L.P.* in the Notes to these Consolidated Financial Statements.

We estimate that the fair value of our interest rate swap agreement with Wells Fargo Bank, N.A. (Level 2) is $27 at March 31, 2013. For additional information, please refer to Note 14, Derivative Investments in the Notes to these Consolidated Financial Statements.

We entered into a contingent consideration agreement in conjunction with the Acro Asset Purchase Agreement, wherein we have agreed to pay 5% of eligible revenues earned during the twelve month period commencing March 31, 2013. We estimate the fair value of the contingent consideration (Level 3) is $665 at March 31, 2013. The fair value of this contingent liability will vary depending on actual revenues earned.

Goodwill

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

Asset Impairment

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

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INTEGRATED ELECTRICAL SERVICES, INC.

Notes to Consolidated Financial Statements

(All Amounts in Thousands Except Share Amounts)

Use of Estimates and Assumptions

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

Tax Provision

A reliable estimate of the annual effective tax rate cannot be determined. Therefore, the Company is using year to date income tax expense to determine the income tax provision for the three months and six months ended March 31, 2013.

Cash and Cash Equivalents

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

Seasonality and Quarterly Fluctuations

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

2. CONTROLLING SHAREHOLDER

On April 30, 2010, we prepaid $15,000 of the original $25,000 principal outstanding on the Tontine Term Loan. On February 12, 2013, we entered into the Amendment to the 2012 Credit Facility pursuant to which, Wells Fargo provided the Company with a $5,000 term loan. On February 13, 2013, we repaid the remaining $10,000 of principal on the Tontine Term Loan with existing cash on hand and proceeds from the Wells Fargo Term Loan. For a description of the Amendment and the Wells Fargo Term Loan, please see Note 4, Debt *The 2012 Revolving Credit Facility* in the Notes to these Consolidated Financial Statements.

While Tontine is subject to restrictions under federal securities laws on sales of its shares as an affiliate, Tontine is party to a Registration Rights Agreement with the Company under which it has the ability, subject to certain restrictions, to demand registration of its shares in order to permit unrestricted sales of those shares. On February 20, 2013, pursuant to the Registration Rights Agreement, Tontine delivered a request to the Company for registration of all of its shares of IES common stock, and on February 21, 2013, the Company filed the Shelf Registration Statement to register Tontine s shares. The Shelf Registration Statement has not been declared effective, and remains subject to review and comment, by the SEC. Once the Shelf Registration Statement is declared effective and for so long as it remains effective, Tontine will have the ability to resell any or all of its shares from time to time in one or more offerings, as described in the Shelf Registration Statement and in any prospectus supplement filed in connection with an offering pursuant to the Shelf Registration Statement.

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

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3. STRATEGIC ACTIONS

The 2011 Restructuring Plan

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

The facilities directly affected by the 2011 Restructuring Plan are in several locations throughout the country, including Arizona, Florida, Iowa, Massachusetts, Louisiana, Nevada and Texas. These facilities were selected due to business prospects at that time and the extended time frame needed to return the facilities to a profitable position. Closure costs associated with the 2011 Restructuring Plan included equipment and facility lease termination expenses, incremental management consulting expenses and severance costs for employees. The Company is in the final stages of winding down these facilities. As part of our restructuring charges reported within discontinued operations for our Commercial & Industrial segment we recognized $(4) and $35 in severance reversals and costs, $61 and $764 in consulting services, and zero and $65 in costs related to lease terminations for the six months ended March 31, 2013 and 2012, respectively.

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

	Severance Charges	Consulting Charges	Lease Termination & Other Charges	Total
Restructuring liability at September 30, 2012	$ 201	$ 10	$ 329	$ 540
Restructuring charges (reversals) incurred	(4)	61		57
Cash payments made	(17)	(70)	(126)	(213)
Restructuring liability at March 31, 2013	$ 180	$ 1	$ 203	$ 384

4. DEBT

Debt consists of the following:

	March 31, 2013	September 30, 2012
Tontine Term Loan, due May 15, 2013, bearing interest at 11.00%	$	$ 10,000
Wells Fargo Term Loan, paid in installments thru Feb 12, 2015, bearing interest at 6% + 3 Month LIBOR	4,792	
Insurance Financing Agreements, bearing interest between 1.99% to 2.75%	1,502	196
Capital leases and other	161	284
Total debt	6,455	10,480
Less Short-term debt and current maturities of long-term debt	(4,163)	(10,456)

Total long-term debt	$ 2,292	$ 24

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Future payments on debt at March 31, 2013 are as follows:

	Capital Leases and Other	Insurance Financing	Term Debt	Total
2013	159	1,502	1,250	2,911
2014	26		2,500	2,526
2015			1,042	1,042
2016				
Thereafter				
Less: Imputed Interest	(24)			(24)
Total	$ 161	$ 1,502	$ 4,792	$ 6,455

For the three months ended March 31, 2013 and 2012, we incurred interest expense of $449 and $543, respectively. For the six months ended March 31, 2013 and 2012, we incurred interest expense of $1,055 and $1,088, respectively.

The 2012 Revolving Credit Facility

On August 9, 2012, we entered into a Credit and Security Agreement (the Credit Agreement), for a $30,000 revolving credit facility (the 2012 Credit Facility) with Wells Fargo. The 2012 Credit Facility originally matured on August 9, 2015, unless earlier terminated. On February 12, 2013, we entered into an amendment of our 2012 Credit Facility with Wells Fargo (the Amendment). The Amendment extends the term of the 2012 Credit Facility to August 9, 2016 and adds IES Renewable Energy, LLC as a borrower on the 2012 Credit Facility. In addition, pursuant to the Amendment, Wells Fargo provided the Company with a $5,000 term loan (the Wells Fargo Term Loan). The Credit Agreement was filed as an exhibit to our Annual Report on Form 10-K for the year ended September 30, 2012, and any description thereof is qualified in its entirety by the terms of the Credit Agreement, and the Amendment was filed as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, and any description thereof is qualified in its entirety by the terms of the Amendment. For a description of the proposed Acquisition Term Loan with Wells Fargo, please see Note 15, Subsequent Events in the Notes to these Consolidated Financial Statements.

The 2012 Credit Facility contains customary affirmative, negative and financial covenants. The 2012 Credit Facility requires that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash and cash equivalents on hand plus Excess Availability (as defined in the Credit Agreement) is less than $20,000 or Excess Availability is less than $7,500.

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

Level	Thresholds	Interest Rate Margin
I	Liquidity £ $20,000 at any time during the period; or Excess Availability £ $7,500 at any time during the period; or Fixed charge coverage ratio < 1.0:1.0	4.00 percentage points

II	Liquidity > $20,000 at all times during the period; and	3.50 percentage points
	Liquidity £ $30,000 at any time during the period; and	
	Excess Availability $7,500; and	
	Fixed charge coverage ratio ≥ 1.0:1.0	
III	Liquidity > $30,000 at all times during the period	3.00 percentage points

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While borrowings under the Wells Fargo Term Loan bear interest at a per annum rate equal to Daily Three Month LIBOR plus 6.00%, the Company and Wells Fargo entered into an interest rate swap agreement on March 1, 2013, whereby the Company has caused the interest rate for borrowings under the Wells Fargo Term Loan to be fixed at 7.00% per annum. Interest is payable in monthly installments over a 24-month period. The Company may prepay the Wells Fargo Term Loan in part or in whole prior to its stated maturity upon the payment of the outstanding principal amount, accrued but unpaid interest and prepayment fees.

In addition, under the 2012 Credit Facility, we are charged monthly in arrears for (1) an unused commitment fee of 0.50% per annum, (2) a collateral monitoring fee ranging from $1 to $2, based on the then-applicable interest rate margin, (3) a letter of credit fee based on the then-applicable interest rate margin and (4) certain other fees and charges as specified in the Credit Agreement.

The 2012 Credit Facility is guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries existing and future acquired assets, exclusive of collateral provided to our surety providers. The 2012 Credit Facility also restricts us from paying cash dividends and places limitations on our ability to repurchase our common stock. On February 13, 2013, we repaid the remaining $10,000 of principal on the Tontine Term Loan plus accrued interest with existing cash on hand and proceeds from the Wells Fargo Term Loan.

At March 31, 2013, we had $16,466 available to us under the 2012 Credit Facility, $7,052 in outstanding letters of credit with Wells Fargo and no outstanding borrowings outside the Wells Fargo Term Loan. The terms surrounding the 2012 Credit Facility agreement with Wells Fargo require that we cash collateralize 100% of our letter of credit balance. As such, we have $7,052 classified as restricted cash within the Balance Sheet as of March 31, 2013.

At March 31, 2013, we were subject to the financial covenant under the 2012 Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash and cash equivalents on hand plus Excess Availability is less than $20,000 or Excess Availability is less than $7,500. As of March 31, 2013, our aggregate amount of unrestricted cash and cash equivalents on hand plus Excess Availability was in excess of $20,000 and Excess Availability was in excess of $7,500; had we not met these thresholds at March 31, 2013, we would not have met the required 1.0:1.0 fixed charge coverage ratio test.

While we expect to meet our financial covenants, in the event that we are not able to meet the covenants of our 2012 Credit Facility in the future and are unsuccessful in obtaining a waiver from our lenders, the Company expects to have adequate cash on hand to fully collateralize our outstanding letters of credit and to provide sufficient cash for ongoing operations.

The 2006 Revolving Credit Facility

On May 12, 2006, we entered into a Loan and Security Agreement (the Loan and Security Agreement), for a revolving credit facility (the 2006 Credit Facility) with Bank of America, N.A. and certain other lenders. On August 9, 2012, the 2006 Credit Facility was replaced by the 2012 Credit Facility. The 2006 Credit Facility and its amendments are filed as Exhibits to this Form 10-K and any descriptions thereof are qualified in their entirety by the terms of the 2006 Credit Facility or its respective amendments. On May 7, 2008, we renegotiated the terms of our 2006 Credit Facility and entered into an amended agreement with the same financial institutions. On April 30, 2010, we renegotiated the terms of, and entered into an amendment to the Loan and Security Agreement pursuant to which the maturity date was extended to May 31, 2012. In connection with the amendment, we incurred an amendment fee of $200, which was amortized over 24 months.

On December 15, 2011, we renegotiated the terms of, and entered into an amendment to, the Loan and Security Agreement without incurring termination charges. Under the terms of the amended 2006 Credit Facility, the size of the facility was reduced to $40,000 and the maturity date was extended to November 12, 2012. Under the terms of the amended 2006 Credit Facility, we were required to cash collateralize all of our letters of credit issued by the banks. The cash collateral was added to the borrowing base calculation at 100% throughout the term of the agreement. The 2006 Credit Facility required that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability was less than $25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability had been at least $25,000 for a period of 60 consecutive days. The amended Agreement also called for cost of borrowings of 4.0% over LIBOR per annum. Cost for letters of credit was the same as borrowings and also included a 25 basis point

fronting fee. All other terms and conditions remained unchanged. In connection with the amendment, we incurred an amendment fee of $60 which, together with unamortized balance of the prior amendment was amortized using the straight line method through August 30, 2012.

The 2006 Credit Facility was guaranteed by our subsidiaries and secured by first priority liens on substantially all of our subsidiaries existing and future acquired assets, exclusive of collateral provided to our surety providers. The 2006 Credit Facility contained customary affirmative, negative and financial covenants. The 2006 Credit Facility also restricted us from paying cash dividends and placed limitations on our ability to repurchase our common stock.

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Borrowings under the 2006 Credit Facility could not exceed a borrowing base that was determined monthly by our lenders based on available collateral, primarily certain accounts receivables and inventories. Under the terms of the 2006 Credit Facility in effect as of August 30, 2012, interest for loans and letter of credit fees was based on our Total Liquidity, which is calculated for any given period as the sum of average daily availability for such period plus average daily unrestricted cash on hand for such period as follows:

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

For the three months ended March 31, 2012, we paid no interest for loans under the 2006 Credit Facility and had a weighted average interest rate, including fronting fees, of 3.75% for letters of credit. In addition, we were charged monthly in arrears (1) an unused commitment fee of 0.50%, and (2) certain other fees and charges as specified in the Loan and Security Agreement, as amended.

As of August 9, 2012, we were subject to the financial covenant under the 2006 Credit Facility requiring that we maintain a fixed charge coverage ratio of not less than 1.0:1.0 at any time that our aggregate amount of unrestricted cash on hand plus availability is less than $25,000 and, thereafter, until such time as our aggregate amount of unrestricted cash on hand plus availability has been at least $25,000 for a period of 60 consecutive days. As of August 9, 2012, our Total Liquidity was in excess of $25,000.

The Tontine Term Loan

On December 12, 2007, we entered into the Tontine Term Loan, a $25,000 senior subordinated loan agreement, with Tontine, which the Company terminated and prepaid in full subsequent to the first quarter of fiscal 2013, as further described below.

The Tontine Term Loan bore interest at 11.0% per annum and was due on May 15, 2013. Interest was payable quarterly in cash or in-kind at our option. Any interest paid in-kind would bear interest at 11.0% in addition to the loan principal. The Tontine Term Loan was subordinated to the 2012 Credit Facility. The Tontine Term Loan was an unsecured obligation of the Company and its subsidiary borrowers and contained no financial covenants or restrictions on dividends or distributions to stockholders. The Tontine Term Loan was amended on August 9, 2012 in connection with the Company entering into the 2012 Credit Facility. The amendment did not materially impact the Company s obligations under the Tontine Term Loan.

On April 30, 2010, we prepaid $15,000 of principal on the Tontine Term Loan. On May 1, 2010, Tontine assigned the Tontine Term Loan to Tontine Capital Overseas Master Fund II, L.P, also a related party. Pursuant to its terms, we were permitted to repay the Tontine Term Loan at any time prior to the maturity date at par, plus accrued interest without penalty within the restrictions of the 2012 Credit Facility. On February 13, 2013, we repaid the remaining $10,000 of principal on the Tontine Term Loan, plus accrued interest, with existing cash on hand and proceeds from the Wells Fargo Term Loan.

Capital Lease

The Company leases certain equipment under agreements, which are classified as capital leases and included in property, plant and equipment. Amortization of this equipment for the three and six months ended March 31, 2013 and 2012 was $46 and $91, respectively.

5. PER SHARE INFORMATION

Basic earnings per share is calculated as income (loss) available to common stockholders, divided by the weighted average number of common shares outstanding during the period. If the effect is dilutive, participating securities are included in the computation of basic earnings per share. Our participating securities do not have a contractual obligation to share in the losses in any given period. As a result, these participating securities will not be allocated any losses in the periods of net losses, but will be allocated income in the periods of net income using the two-class method.

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The following table reconciles the components of the basic and diluted income (loss) per share for the three and six months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Numerator:		
Net loss from continuing operations attributable to common shareholders	$ (940)	$ (1,186)
Net loss from continuing operations attributable to restricted shareholders	$	$
Net loss from continuing operations	$ (940)	$ (1,186)
Net loss from discontinued operations attributable to common shareholders	$ (161)	$ (2,245)
Net loss from discontinued operations attributable to restricted shareholders	$	$
Net loss from discontinued operations	$ (161)	$ (2,245)
Net loss attributable to common shareholders	$ (1,101)	$ (3,431)
Net loss attributable to restricted shareholders	$	$
Net loss	$ (1,101)	$ (3,431)
Denominator:		
Weighted average common shares outstanding basic	14,909,896	14,638,678
Effect of dilutive stock options and non-vested restricted stock		
Weighted average common and common equivalent shares outstanding diluted	14,909,896	14,638,678
Basic loss per share:		
Basic loss per share from continuing operations	$ (0.06)	$ (0.08)
Basic loss per share from discontinued operations	$ (0.01)	$ (0.15)
Basic loss per share	$ (0.07)	$ (0.23)
Diluted loss per share:		
Diluted loss per share from continuing operations	$ (0.06)	$ (0.08)
Diluted loss per share from discontinued operations	$ (0.01)	$ (0.15)
Diluted loss per share	$ (0.07)	$ (0.23)

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	Six Months Ended March 31, 2013		Six Months Ended March 31, 2012	
Numerator:				
Net loss from continuing operations attributable to common shareholders	$	(306)	$	(995)
Net loss from continuing operations attributable to restricted shareholders	$		$	
Net loss from continuing operations	$	(306)	$	(995)
Net loss from discontinued operations attributable to common shareholders	$	(284)	$	(6,158)
Net loss from discontinued operations attributable to restricted shareholders	$		$	
Net loss from discontinued operations	$	(284)	$	(6,158)
Net loss attributable to common shareholders	$	(590)	$	(7,153)
Net loss attributable to restricted shareholders	$		$	
Net loss	$	(590)	$	(7,153)
Denominator:				
Weighted average common shares outstanding basic		14,855,313		14,603,693
Effect of dilutive stock options and non-vested restricted stock				
Weighted average common and common equivalent shares outstanding diluted		14,855,313		14,603,693
Basic loss per share:				
Basic loss per share from continuing operations	$	(0.02)	$	(0.07)
Basic loss per share from discontinued operations	$	(0.02)	$	(0.42)
Basic loss per share	$	(0.04)	$	(0.49)
Diluted loss per share:				
Diluted loss per share from continuing operations	$	(0.02)	$	(0.07)
Diluted loss per share from discontinued operations	$	(0.02)	$	(0.42)
Diluted loss per share	$	(0.04)	$	(0.49)

For the three months ended March 31, 2013 and 2012, 16,121 and 20,000 stock options, respectively, were excluded from the computation of fully diluted earnings per share because the exercise prices of the options were greater than the average price of our common stock. For the six months ended March 31, 2013 and 2012, 17,236 and 20,000 stock options, respectively, were excluded from the computation of fully diluted earnings per share because the exercise prices of the options were greater than the average price of our common stock.

For the three months ended March 31, 2013 and 2012, 168,412 and 388,860 shares, respectively, of restricted stock were excluded from the computation of fully diluted earnings per share because we reported a loss from continuing operations. For the six months ended March 31, 2013 and 2012, 196,455 and 388,860 shares, respectively, of restricted stock were excluded from the computation of fully diluted earnings per share because we reported a loss from continuing operations.

6. OPERATING SEGMENTS

We manage and measure performance of our business in three distinct operating segments: Communications, Residential and Commercial & Industrial. These segments are reflective of how the Company s Chief Operating Decision Maker (CODM) reviews operating results for the purposes of allocating resources and assessing performance. The Company s CODM is its Chief Executive Officer. The Communications segment is a nationwide provider of products and services for mission critical infrastructure, such as data centers, of large corporations. The Residential segment is a regional provider of electrical installation services for single-family housing and multi-family apartment complexes. The Commercial & Industrial segment provides electrical design, construction, and maintenance services to the commercial and industrial markets in various regional markets and nationwide in certain areas of expertise, such as the power infrastructure market.

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

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Segment information for the three and six months ended March 31, 2013 and 2012 is as follows:

	Three Months Ended March 31, 2013				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 31,806	$ 39,344	$ 50,845	$	$ 121,995
Cost of services	25,975	32,564	47,460		105,999
Gross profit	5,831	6,780	3,385		15,996
Selling, general and administrative	3,301	6,412	3,609	3,284	16,606
Loss (gain) on sale of assets		(12)	(9)		(21)
Income (loss) from operations	$ 2,530	$ 380	$ (215)	$ (3,284)	$ (589)
Other data:					
Depreciation and amortization expense	$ 92	$ 89	$ 59	$ 299	$ 539
Capital expenditures	130	68	97		295
Total assets	$ 25,366	$ 38,714	$ 53,531	$ 35,642	$ 153,253

	Three Months Ended March 31, 2012				
	Communications	Residential	Commercial & Industrial	Corporate	Total
Revenues	$ 28,430	$ 29,628	$ 49,550	$	$ 107,608
Cost of services	24,374	25,097	44,350	(2)	93,819
Gross profit	4,056	4,531	5,200	2	13,789
Selling, general and administrative	3,165	4,532	4,506	2,204	14,407
Loss (gain) on sale of assets		3	(22)		(19)
Income (loss) from operations	$ 891	$ (4)	$ 716	$ (2,202)	$ (599)
Other data:					
Depreciation and amortization expense	$ 65	$ 90	$ 61	$ 303	$ 519
Capital expenditures	$ 239	$ 8			