

Integrated Electrical Services, Inc.
Form 10-K
December 11, 2015
Table of Contents

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, 2015
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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NASDAQ
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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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, 2015 held by non-affiliates was approximately \$67.9 million. On December 9, 2015, there were 21,468,742 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the 2016 Annual Meeting of Stockholders of the Registrant to be held on February 9, 2016 is incorporated by reference into Part III of this Form 10-K.

Table of Contents

FORM 10-K

INTEGRATED ELECTRICAL SERVICES, INC.

Table of Contents

	Page
PART I	
<u>DEFINITIONS</u>	3
<u>DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS</u>	3
Item 1 <u>BUSINESS</u>	5
Item 1A <u>RISK FACTORS</u>	15
Item 1B <u>UNRESOLVED STAFF COMMENTS</u>	23
Item 2 <u>PROPERTIES</u>	23
Item 3 <u>LEGAL PROCEEDINGS</u>	23
Item 4 <u>MINE SAFETY DISCLOSURES</u>	23
PART II	
Item 5 <u>MARKET FOR REGISTRANT'S COMMON EQUITY: RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	24
Item 6 <u>SELECTED FINANCIAL DATA</u>	27
Item 7 <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	28
Item 7A <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	45
Item 8 <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	46
Item 9 <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	84
Item 9A <u>CONTROLS AND PROCEDURES</u>	84
Item 9B <u>OTHER INFORMATION</u>	84
PART III	
Item 10 <u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	85
Item 11 <u>EXECUTIVE COMPENSATION</u>	85
Item 12 <u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	85
Item 13 <u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>	85
Item 14 <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	86
PART IV	
Item 15 <u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	86
<u>SIGNATURES</u>	90
EX-21.1	
EX-23.1	
EX-31.1	
EX-31.2	
EX-32.1	

EX-32.2

Table of Contents

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", "predict", "potential", "pursue", "target" 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 trading volume 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;

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;

Table of Contents

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

interruptions to our information systems and cyber security;

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;

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

Table of Contents

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 services:

Communications Nationwide provider of technology infrastructure services to large corporations and independent businesses.

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 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 an 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 stand-alone platform companies based in North America or acquire businesses that strategically complement our existing business segments. In evaluating potential acquisition candidates, we seek to invest in businesses with, among other characteristics:

Proven management with a willingness to continue post acquisition;

Business with low technological and/or product obsolescence risk;

Established market position and sustainable competitive advantages; and

Strong cash flow characteristics.

In furtherance of this strategy, during fiscal year 2015 we acquired 100% of the stock of a motor remanufacture business that is operated under our Infrastructure Solutions business, and in the first quarter of fiscal year 2016 we acquired 100% of the stock or membership interests in two businesses, one of which is a motor assembly and remanufacture business operated in our Infrastructure Solutions business and one of which is a mechanical and electrical contracting business operated in our Commercial & Industrial business. For more information on these acquisitions, please refer to Note 20, Subsequent Events in the notes to our Consolidated Financial Statements.

Table of Contents

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

Controlling Shareholder

A majority of our outstanding common stock is owned by Tontine Capital Partners, L.P. and its affiliates (collectively, Tontine). On October 15, 2015, Tontine filed an amended Schedule 13D indicating its ownership level of 62.2%. 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. Most of Tontine s shares are registered on a shelf registration statement (the Shelf Registration Statement) filed by the Company and declared effective in 2013 by the U.S. Securities and Exchange Commission (the SEC). 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 \$439 million at September 30, 2015, 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.

OPERATING SEGMENTS

The Company s reportable segments consist of the consolidated operating units identified above, which offer different 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,		
	2015	2014	2013

Edgar Filing: Integrated Electrical Services, Inc. - Form 10-K

	\$	%	\$	%	\$	%
	(Dollars in thousands, Percentage of revenues)					
Communications	\$ 141,858	24.7%	\$ 116,073	22.7%	\$ 126,348	25.5%
Residential	206,307	36.0%	182,514	35.6%	162,611	32.9%
Commercial & Industrial	178,865	31.2%	166,249	32.4%	203,481	41.1%
Infrastructure Solutions (1)	46,827	8.1%	47,559	9.3%	2,153	0.5%
Total Consolidated	\$ 573,857	100.0%	\$ 512,395	100.0%	\$ 494,593	100.0%

Table of Contents

(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.

Communications

Business Description

Originally established in 1984, our Communications segment is a leading provider of network infrastructure 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 including for Fortune 500 corporations. We also provide the design and installation of audio/visual, telephone, fire, wireless access 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, 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 has stabilized, 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 other building technology offerings. Nevertheless, due to economic, technological and other factors, there can be no assurance that demand will continue to increase.

Sales and Marketing

Our sales strategy relies on a concentrated business development effort, with centralized marketing programs and direct end-customer communications and 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. A significant portion of our Communications business volume is generated from long-term, repeat customers, some of whom use IES as a preferred provider for major projects.

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 as well as opportunistic acquisitions of businesses that serve our markets, consistent with our stated corporate strategy.

Competition

Our competition consists of both large public companies and small, privately owned contractors who have limited access to capital. 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, communications infrastructure spending 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.

Table of Contents

Residential

Business Description

Originally established in 1973, our Residential segment is a leading provider of 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 26 total locations, which include the headquarters in Houston, Texas. These locations geographically cover 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. Demand for both single-family and multi-family housing has increased in recent years. 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. A significant portion of our Residential business volume is generated from long-term, repeat customers, some of whom use IES as a preferred provider for major projects.

Our long-term strategy is to continue to be the leading national provider of electrical services to the residential market. The key elements of our long-term strategy include a continued focus on maintaining a low and variable cost structure and cash generation which has allowed us to effectively scale according to the housing cycle. During the housing downturn, we modified our strategy by expanding into markets less exposed to national building cycles, such as solar panel and cable installation services.

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 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. In particular, a prolonged period of low oil prices and subsequent slowdown in the economy could have a negative impact on demand for housing in regions such as Texas, which is a key market for us. 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.

Table of Contents

Commercial & Industrial

Business Description

Our Commercial & Industrial segment offers a broad range of expertise that enables us to provide a wide array of quality services related to electrical design, construction, and maintenance to the commercial and industrial markets. The offerings under our design services platform range from budget assistance to providing design build and LEED (Leadership in Energy & Environmental Design) solutions to our end customers. These services are typically integrated with our construction services. Our construction services range from the initial planning and procurement to installation and start-up. The construction services are offered to a variety of new and remodel construction projects, including transmission and distribution projects. The maintenance services offered include critical plant shutdown, troubleshooting, emergency testing, preventative maintenance, and constant presence. This segment provides services for a variety of project types, including: office buildings, manufacturing facilities, data centers, chemical plants, refineries, wind farms, solar facilities and municipal infrastructure and health care facilities. 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. On November 20, 2015, we expanded our geographic and service offerings with the acquisition of Shanahan Mechanical and Electrical, Inc., a Lincoln, Nebraska-based provider of mechanical and electrical contracting services, which will operate as a subsidiary in this segment.

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.

Sales and Marketing

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. Our maintenance and certain renovation and upgrade work tend to be either recurring or experience lower sensitivity to economic cycles, or both. A significant portion of our larger projects are awarded from long-term, repeat customers. From time to time, we are contracted on projects with completion times extending beyond one year or over several years, which are generally more complex and difficult to estimate.

With a focus on quality service offerings, our long-term strategy is to continue to be the one of the preferred providers of electrical services in the markets where we have demonstrated expertise and/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 customers 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.

Table of Contents

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 provides electrical and mechanical solutions to domestic and international customers. Services include the maintenance and repair of alternating current (AC) and direct current (DC) electric motors and generators, as well as power generating and distribution equipment; the manufacture, remanufacture, and repair of industrial lifting magnets; and maintenance and repair of railroad main and auxiliary generators, main alternators, and traction motors. In addition, Infrastructure Solutions manufactures and remanufactures EMD-style power assemblies for various engine types and offers premium replacement parts for power assemblies, primarily for the railroad and marine markets. This segment serves steel, railroad, marine, petrochemical, pulp and paper, wind energy, mining, automotive, power generation, scrap yards, and utility industries. Infrastructure Solutions is comprised of 10 locations, headquartered in Ohio. These segment locations geographically cover Alabama, Georgia, Indiana, Ohio, West Virginia, Maryland and California. On October 30, 2015, we expanded our geographic and service offerings with the acquisition of Calumet Armature & Electric, LLC (Calumet), an Illinois-based provider of design, manufacturing, assembly, and repair services of electric motors for the industrial and mass transit markets, which will operate as a subsidiary in this segment.

Industry Overview

Given the diverse end-markets of Infrastructure Solutions' customers, we are subject to many economic trends. In general, demand for our 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 the overall health of the economy.

Sales and Marketing

Demand for Infrastructure Solutions' 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, and the need for electrical infrastructure improvements. Our sales efforts are primarily driven by personnel based at our 10 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 services, repairs, and manufacturing to our select markets and a trusted provider of aftermarket EMD-style power assemblies.

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 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.

Table of Contents

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. Rail spending is generally highly cyclical, which can impact our results in this segment, although we expect our newer transit traction motor offerings to be less impacted by cyclicity than our overall rail business. 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.

SOURCES OF SUPPLY

The raw materials and components we use within our segments include, but are not limited to, electrical fixtures and system components, copper, aluminum, and raw steel. These raw materials and components are generally available from a variety of domestic suppliers at competitive prices. Delivery times are typically short for most raw materials and standard components, but during periods of peak demand, may extend to one month or more. Our strategy to reduce commodity cost exposure includes early buying of commodities for particular projects, or for general inventory, as well as including escalation and escape provisions in project bids, quotes and contracts wherever possible.

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 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, 2015, 2014 and 2013, no single customer accounted for more than 10% of our consolidated revenues. We 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.

Table of Contents**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. Not all of our work is performed under contracts included in backlog; for example, most work performed by our Infrastructure Solutions segment is performed under master service agreements on an as-needed basis. The table below summarizes our backlog by segment:

	Years Ended September 30,	
	2015	2014
	(Dollars in millions)	
Communications	\$ 51	\$ 72
Residential	69	71
Commercial & Industrial	148	138
Infrastructure Solutions	2	5
Total	\$ 270	\$ 286

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.

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 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 2015, 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.

Table of Contents

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, 2015, we had 3,106 employees. We are party to two collective bargaining agreements within our Infrastructure Solutions segment. We have not experienced, and do not expect, any work stoppage, and believe that our relationship with our employees is strong.

LOCATIONS

We have 66 domestic locations serving the United States. In addition to our executive and corporate offices, as of September 30, 2015, we have 11 locations within our Communications business, 26 locations within our Residential business, 19 locations within our Commercial & Industrial business and 10 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:

Robert W. Lewey, 53, has served as President of the Company since May 2015. He previously served as Interim Chief Operating Officer of the Company from January 2015 to May 2015 while continuing to serve as Senior Vice President, Chief Financial Officer and Treasurer of the Company, a role he had held from January 2012 to May 2015. From 2001 to 2006 and from 2007 to January 2012, Mr. Lewey served as Director of Tax, Vice President, Tax and 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.

Tracy A. McLauchlin, 45, has served as Senior Vice President, Chief Financial Officer and Treasurer of the Company since May 2015. She previously served as Vice President and Chief Accounting Officer of the Company since February 2014. Prior to that role, Ms. McLauchlin had served as Vice President and Chief Accounting Officer of Rockwater Energy Solutions, Inc., a position she held from June 2011 to November 2013. From June 2004 to June 2011, Ms. McLauchlin was with Dynegy Inc., where she served as Senior Vice President and Controller of Dynegy Inc. from March 2009 to June 2011, and from June 2004 to March 2009 served in various other capacities in finance and accounting.

Gail D. Makode, 40, has served as Senior Vice President, General Counsel and Corporate Secretary since October 2012. Ms. Makode previously served in various legal positions at MBIA Inc. and its subsidiaries from 2006 to 2012, including as General Counsel and 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 principal executive officer, principal financial officer and principal accounting officer. The Code of Ethics may be found on our website at

www.ies-co.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 principal executive officer, principal financial officer and principal 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.

Table of Contents

AVAILABLE INFORMATION

General information about us can be found on our website at *www.ies-co.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*. 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 2016 Annual Meeting of Stockholders of the Company.

Table of Contents

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 October 15, 2015, Tontine filed an amended Schedule 13D indicating its ownership level of 62.2%. 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 lower trading volume 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 our common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales, or potential sales, of substantial amounts of our common stock 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, 2015, we had 21,475,741 shares of common stock outstanding and no shares of preferred stock outstanding. We have reserved for issuance 133,000 shares of common stock underlying options that are exercisable

at a weighted average price of \$5.79 per share. In addition, as of September 30, 2015 we had the ability to issue 472,054 shares of common stock pursuant to options and restricted stock that may be granted in the future under our existing equity compensation plans.

Table of Contents

Although we currently 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, 2015, we have approximately \$297 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.

Our 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, may adversely impact our future growth.

Our corporate strategy involves creating shareholder value through acquiring or investing in stand-alone platform companies based in North America or acquiring businesses that we believe will strategically complement our existing business segments. While we believe that acquisitions will provide an opportunity to expand into new end markets and diversify our revenue and profit streams, potential acquisitions in new industries could result in changes in our operations from those historically conducted by us and introduce the requirement for new controls, and our failure to diversify from existing markets may limit our future growth. Further, our inability to carry out our acquisition

strategy, or other plans and strategies, as expected could adversely impact our ability to maximize the value of our significant NOLs and or even to utilize our NOLs.

Table of Contents

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 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 (including managing efficiently future capital expenditures and refurbishment, repair and upgrade costs) 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 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' 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. 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.

Table of Contents

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. Further, when we are awarded contracts, we face additional risks that could affect whether, or when, work will begin. We could experience a decrease in profitability if we are unable to replace canceled, completed or expired contracts with new work.

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. Prolonged 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.

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; we may be adversely impacted by new accounting, control and operating procedures.

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

Table of Contents

contracts are based on estimates of contract revenues, costs and profitability. We review our estimates of contract revenue, costs and profitability on an ongoing basis. Prior to contract completion, we may adjust our estimates on one or more occasions as a result of change orders to the original contract, collection disputes with the customer on amounts invoiced or claims against the customer for increased costs incurred by us due to customer-induced delays and other factors. Contract losses are recognized in full when determined to be probable and reasonably estimable. Although we have historically made reasonably reliable estimates of the progress towards completion of our construction contracts, the uncertainties inherent in the estimating process make it possible for actual costs to vary materially from estimates, including reductions or reversals of previously recorded revenues and profits. In addition, we may be adversely impacted by new accounting pronouncements which change our revenue recognition or other accounting practices or otherwise alter how we report our financial results, or which require that we change our control and operating procedures, which we may be unable to do in a timely manner.

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

In the past, we incurred significant costs associated with the closure or disposition of facilities, and we expect from time to time to evaluate the need for future facility closures or dispositions of assets. If we were to elect to dispose of a substantial portion of any of our segments, facilities, or assets, 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. Accordingly, if we were to experience an interruption or reduction in our availability of bonding capacity, we may be unable to compete for, or work on, certain projects.

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. In particular, a prolonged period of weak demand in the oil and gas industry could dampen the housing market in certain regions, resulting in reduced demand for the services provided by our Residential segment. 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. Industrial and rail customers may also be affected by continuing low oil prices. 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 reduced profits or in some cases losses on fixed price contracts.

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 or other commodities, may vary significantly from the costs we originally estimate. Variations from estimated contract costs along with other

Table of Contents

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.

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; changes in regulations; and other general economic and seasonal factors. Adverse changes in one or more of these factors could hurt our operating results.

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

Table of Contents

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.

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

Table of Contents

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.

Interruptions in the proper functioning of our information systems, or security breaches of our information systems or confidential data could disrupt operations and cause increases in costs and/or decreases in revenues.

As our Company continues to increase its dependence on information technology systems, networks, and infrastructure to conduct its day to day operations, the proper functioning and security of our information technology environment is critical to the successful operation of our business. Although our information systems, networks and infrastructure are protected through physical and software safeguards, our information technology environment is still vulnerable to natural disasters, power losses, telecommunication failures, cybersecurity risks, and other problems, which could cause a loss of data, release of personally identifiable information or release of confidential customer information among other items. If critical information systems fail or are otherwise unavailable or confidential information is released, our business operations could be adversely affected.

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

Table of Contents

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 generally do not maintain key man life insurance for members of our management.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Facilities

At September 30, 2015, we maintained branch offices, warehouses, sales facilities and administrative offices at 66 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 17, *Commitments and Contingencies - Legal Matters* in the notes to our Consolidated Financial Statements.

Item 4. *Mine Safety Disclosures*

None.

Table of Contents**PART II****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, 2015 and 2014.

	High	Low
Year Ended September 30, 2015		
First Quarter	\$ 8.04	\$ 6.91
Second Quarter	\$ 8.80	\$ 7.00
Third Quarter	\$ 8.90	\$ 6.89
Fourth Quarter	\$ 8.00	\$ 6.30
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

As of December 9, 2015, the closing market price of our common stock was \$7.63 per share and there were approximately 384 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 (as defined herein) 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.

Stock Repurchase Plan

On February 4, 2015, our Board of Directors authorized a stock repurchase program for purchasing up to 1.0 million shares of the Company's common stock from time to time, and on December 9, 2015 authorized repurchase of an additional 500,000 shares. Share purchases are made for cash in open market transactions at prevailing market prices or in privately negotiated transactions or otherwise. The timing and amount of purchases under the program are determined based upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. All or part of the repurchases may be implemented under a Rule 10b5-1 trading plan, which allows repurchases under pre-set terms at times when the Company might otherwise be prevented from purchasing under insider trading laws or because of self-imposed blackout periods. The program does not require the Company to purchase any specific number of shares and may be modified, suspended or reinstated at any time at the Company's discretion and without notice. During the year ended September 30, 2015, pursuant to the program, the Company

repurchased 482,156 shares of common stock at an average of \$7.22 per share for a total aggregate purchase price of \$3.5 million.

Table of Contents

The following table presents information with respect to purchases of common stock of the Company made during the three months ended September 30, 2015:

Date	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan (2)	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Plan
July 1, 2015 - July 31, 2015	12,197	\$ 7.00	12,197	558,262
August 1, 2015 - August 31, 2015	16,779	\$ 7.03	15,886	542,376
September 1, 2015 - September 30, 2015	24,532	\$ 7.04	24,532	517,844
Total	53,508	\$ 7.03	52,615	517,844

(1) The total number of shares purchased includes (i) shares purchased pursuant to the plan described in footnote (2) below, and (ii) shares surrendered to the Company to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

(2) In February, 2015 we publicly disclosed that our Board of Directors had authorized a plan for the Company to purchase up to 1 million shares of the Company's common stock. In December, 2015, our Board of Directors authorized the repurchase of up to an additional 0.5 million shares under this program.

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 six companies that includes: Black Box Corp, Comfort Systems USA Inc., Furmanite Corp, MYR Group Inc., 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, 2010 and its relative performance is tracked through September 30, 2015.

	Years ended September 30,					
	2010	2011	2012	2013	2014	2015
Integrated Electrical Services, Inc.	\$ 100.00	53.86	121.01	107.98	219.41	205.32
Russell 2000	\$ 100.00	96.47	127.25	165.50	172.01	174.15
Peer Group	\$ 100.00	91.49	113.07	148.88	128.22	139.98

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,				
	2015	2014	2013	2012	2011
	(In Thousands, Except Share Information)				
Continuing Operations:					
Revenues	\$ 573,857	\$ 512,395	\$ 494,593	\$ 456,115	\$ 406,141
Cost of services	473,966	429,269	427,633	398,063	361,757
Gross profit	99,891	83,126	66,960	58,052	44,384
Selling, general and administrative expenses	81,416	75,571	66,598	58,609	63,321
Gain on sale of Assets	(13)	(86)	(64)	(168)	(6,555)
Asset impairment					4,804
Income (loss) from Operations	18,488	7,641	426	(389)	(17,186)
Other (income) expense:					
Interest expense	1,130	1,574	1,771	2,324	2,210
Other expense (income), net	(180)	(203)	507	(96)	(7)
Income (loss) from operations before income taxes	17,538	6,270	(1,852)	(2,617)	(19,389)
Provision for income taxes	661	748	326	38	172
Net income (loss) from continuing operations	16,877	5,522	(2,178)	(2,655)	(19,561)
Discontinued Operations:					
Loss from discontinued operations	(339)	(198)	(1,395)	(9,158)	(18,288)
Provision (benefit) for income taxes				(11)	(26)
Net loss discontinued operations	(339)	(198)	(1,395)	(9,147)	(18,262)
Net income (loss)	\$ 16,538	\$ 5,324	\$ (3,573)	\$ (11,802)	\$ (37,823)
Basic earnings (loss) per share:					
Continuing operations	\$ 0.79	\$ 0.30	\$ (0.14)	\$ (0.18)	\$ (1.30)
Discontinued operations	(0.02)	(0.01)	(0.09)	(0.60)	(1.22)

Edgar Filing: Integrated Electrical Services, Inc. - Form 10-K

Total	\$	0.77	\$	0.29	\$	(0.23)	\$	(0.78)	\$	(2.52)
Diluted earnings (loss) per share:										
Continuing operations	\$	0.79	\$	0.30	\$	(0.14)	\$	(0.18)	\$	(1.30)
Discontinued operations		(0.02)		(0.01)		(0.09)		(0.60)		(1.22)
Total	\$	0.77	\$	0.29	\$	(0.23)	\$	(0.78)	\$	(2.52)

Shares used to calculate earnings (loss) per share

Basic	21,480,622	18,417,564	15,460,424	15,123,052	14,986,534
Diluted	21,526,188	18,473,420	15,460,424	15,123,052	14,986,534

Table of Contents

	Years Ended September 30,				
	2015	2014	2013	2012	2011
	(In Thousands, Except Share Information)				
Balance Sheet Data:					
Cash and cash equivalents	\$ 49,360	\$ 47,342	\$ 20,757	\$ 18,729	\$ 35,577
Working capital	80,961	72,073	45,467	43,001	61,721
Total assets	226,710	201,108	179,252	164,713	180,244
Total debt	10,238	10,208	13,772	10,480	10,498
Total stockholders' equity	101,414	87,972	62,486	53,157	64,301

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 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, demand for our railroad locomotive parts, 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, including the slowdown in the oil and gas sector, which may reduce the demand for housing in the Texas region, where our Residential division operates. 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 2015 as compared to fiscal 2014, 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 2015 were led primarily by growth in our Communications segment followed closely by our Residential segment. The combination of increasing revenue, increasing project bid margins, effective project

Table of Contents

execution, and efficient scaling of operations as the economy improves have resulted in a year over year increase in 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 2016 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 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, among many other factors. We anticipate that the combination of cash on hand, cash flows from operations 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 \$2.0 to \$3.0 million for the fiscal year ending on September 30, 2016, 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 Group, Ltd. in September 2013.

Years Ended September 30,				
2015		2014		2013
\$	%	\$	%	\$