

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported):

February 7, 2006 (February 1, 2006)

INTEGRATED ELECTRICAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation)

001-13783

(Commission
File Number)

76-0542208

(IRS Employer
Identification No.)

**1800 West Loop South, Suite 500
Houston, Texas**

(Address of principal
executive offices)

77027

(Zip Code)

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

(Former name or former address, if changed since last report): Not applicable

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECTION 1 – REGISTRANT’S BUSINESS AND OPERATIONS

ITEM 1.01 Entry Into a Material Definitive Agreement

DIP Facility Commitment Letter

In connection with the previously announced intention of Integrated Electrical Services, Inc. and certain of its subsidiaries (collectively, “IES” or the “Company”) to effect a restructuring through a Chapter 11 plan of reorganization, the Company has accepted a financing commitment letter, dated February 1, 2006 (the “Commitment Letter”), with Bank of America, N.A. (“BofA”). The Commitment Letter contemplates that BofA and any other lenders that choose to participate therein (collectively, the “DIP Lenders”) will provide a credit facility (the “DIP Facility”) to the Company, as a debtor-in-possession, upon the satisfaction of certain conditions described below.

The DIP Facility will provide for aggregate financing of \$80 million during the pendency of the Company’s anticipated Chapter 11 case, consisting of a revolving credit facility of up to \$80 million, with a \$72 million sub-limit for letters of credit. The Company is currently party to a Loan and Security Agreement, dated August 1, 2005 with BofA (the “Prepetition Loan Agreement”). Under the DIP Facility, all letters of credit and other obligations outstanding under the Prepetition Loan Agreement will constitute obligations and liabilities under the DIP Facility.

Loans under the DIP Facility will bear interest at LIBOR plus 3.5% or the Base Rate plus 1.5% on the terms set forth in the Commitment Letter. In addition, the Company will be charged monthly in arrears (i) an unused line fee of either 0.5% or .375% depending on the utilization of the credit line, (ii) a letter of credit fee equal to the applicable per annum LIBOR margin times the amount of all outstanding letters of credit and (iii) certain other fees and charges as specified in the Commitment Letter.

The DIP Facility will mature on the earliest to occur of (i) the expiration of a period of 12 months from the closing date of the DIP Facility, (ii) 45 days after the commencement of the Chapter 11 cases if a Final Order approving the DIP Facility has not been entered by the bankruptcy court, (iii) the effective date of an approved Plan of Reorganization or (iv) termination of the DIP Facility. The DIP Facility will be entitled to superpriority administrative expense status pursuant to Section 364(c)(1) of Title 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) and be secured by a first priority security interest, subject to certain Permitted Liens, in the Collateral. The DIP Facility contemplates customary affirmative, negative and financial covenants binding on the Company as described in the Commitment Letter.

The Commitment Letter provides that the DIP Lenders are obligated to provide the DIP Facility only upon the satisfaction of certain conditions, including, without limitation, completion of definitive documentation and other ancillary documents as may be required by BofA; entry of orders of a bankruptcy court authorizing the DIP Facility, use of cash collateral and related matters; BofA’s receipt of financial projections, financial statements and a satisfactory budget; BofA’s satisfaction with the relative rights of BofA and the Company’s sureties; and the absence of a material adverse change in the Company’s business, assets, financial condition, liabilities, business prospects or results of operations since November 30, 2005, other than as previously disclosed.

The Commitment Letter is filed as Exhibit 10.1 hereto and the foregoing summary of certain terms and conditions of the DIP Facility is qualified in its entirety by reference to such exhibit. Capitalized terms used but not defined herein shall have the meaning set forth in the Commitment Letter.

The Chubb Surety Agreement

The Company is party to that certain Underwriting, Continuing Indemnity, and Security Agreement, dated January 14, 2005 and related documents, as amended (the “Surety Agreement”), with Federal Insurance Company and its affiliates (collectively, “Chubb”), which provides for the provision of surety bonds to support the Company’s contracts with certain of its customers.

In connection with the Company's anticipated Chapter 11 bankruptcy case, the Company has entered into the Term Sheet for Surety Support, dated February 3, 2006 (the "Chubb DIP Agreement"). The Chubb DIP Agreement provides for Chubb, during the pendency of the Company's Chapter 11 case, (i) in its sole and absolute discretion and upon the Company's filing of a voluntary petition for bankruptcy, to issue up to an aggregate of \$48 million in new surety bonds, with not more than \$12 million in new surety bonds to be issued in any given month, and (ii) to give permission for the Company's use of cash collateral in the form of proceeds of all contracts as to which Chubb has issued surety bonds. The Company will be charged a bond premium of \$25 per \$1,000 of the contract price related to any new surety bond. The Company will provide \$6 million in additional collateral in the form of cash or letters of credit in installments of \$1.5 million per month, to support the new surety bonds. The Chubb DIP Agreement is subject to certain conditions as set forth therein, including, without limitation, the Company's payment of due diligence and facility fees of \$500,000 each; the Company's assumption of the Surety Agreement and bonded contracts in the bankruptcy proceeding; and the entry of bankruptcy court orders, in form and substance satisfactory to Chubb in its sole discretion, authorizing the forgoing.

The Chubb DIP Agreement is filed as Exhibit 10.2 hereto and the forgoing summary of certain terms and conditions of the Chubb DIP Agreement is qualified in its entirety by reference to such exhibit.

SECTION 2 – FINANCIAL INFORMATION

Item 2.03 Creation of a Direct Financial Obligation

The information provided in Item 1.03 of this Current Report on Form 8-K regarding the DIP Facility and the Chubb DIP Agreement is incorporated by reference into this Item 2.03.

SECTION 7 – REGULATION FD

Item 7.01 Regulation FD Disclosure

The Company previously announced that it had reached a non-binding agreement in principle with an ad hoc committee, whose members hold a majority of the Company's 9 3/8% senior subordinated notes due 2009 (the "Senior Subordinated Notes"), for a proposed consensual restructuring of the Company's capital structure. The Company and the ad hoc committee originally anticipated that the proposed restructuring would be consummated through a "pre-packaged" Chapter 11 bankruptcy filing. A "pre-packaged" Chapter 11 filing would likely involve the Company entering into a plan support agreement with the holders of a majority of the Senior Subordinated Notes and then soliciting acceptances of a proposed plan of reorganization prior to commencing any bankruptcy proceeding. The Company, in consultation with the ad hoc committee, is now considering a "pre-arranged" Chapter 11 filing, rather than a "pre-packaged" filing. Under a "pre-arranged" Chapter 11 filing scenario, the Company would file voluntary petitions for relief under Chapter 11 after entering into a plan support agreement with holders of a majority of the Senior Subordinated Notes and then solicit acceptances of a proposed plan of reorganization upon bankruptcy court approval of a disclosure statement describing the plan. There would be no prepetition solicitation. It is not anticipated that the treatment of creditors and equity interests in a plan of reorganization would change from what the Company has previously disclosed as a result of a "pre-arranged" bankruptcy filing, rather than a "pre-packaged" bankruptcy filing.

This current report on Form 8-K includes certain statements that may be deemed to be "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the Company's expectations and involve risks and uncertainties that could cause the Company's actual results to differ materially from those set forth in the statements. Such risks and uncertainties include, but are not limited to, the Company's inability to complete a financial restructuring on terms acceptable to the Company or at all; and the failure of the Company to file voluntary petitions for reorganization under the Bankruptcy Code. You should understand that the foregoing important factors, in addition to those discussed in our other filings with the Securities and Exchange Commission ("SEC"), including those under the heading "Risk Factors" contained in our annual report on Form 10-K for the fiscal year ended September 30, 2005, could affect our future results and could cause results to differ materially from those expressed in such forward-looking statements. We undertake no

obligation to publicly update or revise the Company's borrowing availability, its cash position or any forward-looking statements to reflect events or circumstances that may arise after the date of this report.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

Exhibit

<u>Number</u>	<u>Description</u>
10.1*	Commitment Letter, dated February 1, 2006, by and between Integrated Electrical Services, Inc. and Bank of America, N.A.
10.2*	Term Sheet for Surety Support, by and between Integrated Electrical Services, Inc. and Federal Insurance Company.

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

INTEGRATED ELECTRICAL SERVICES, INC.

By:

/s/ Curt L. Warnock

Curt L. Warnock

Senior Vice President and General Counsel

Date: February 7, 2006

EXHIBIT INDEX

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* Filed herewith

February 1, 2006

Integrated Electrical Services, Inc.
1800 West Loop South
Suite 500
Houston, Texas 77027

Attention: Mr. David Miller
Chief Financial Officer

Re: Commitment for Senior Secured Super-Priority Debtor-in-Possession Credit Facility

Dear Mr. Miller:

Bank of America, N.A. ("Bank") is pleased to offer to be the sole and exclusive administrative agent for an \$80,000,000 senior secured super-priority debtor-in-possession credit facility (the "DIP Facility") to Integrated Electrical Services, Inc. ("Parent"), and such of the subsidiaries of Parent as shall be acceptable to Bank in its sole discretion (Parent and such subsidiaries being hereinafter referred to as "Borrower") in conjunction with the prepackaged or pre-negotiated Chapter 11 bankruptcy filing of Parent and its subsidiaries ("Chapter 11 Proceeding"), and Bank is pleased to offer its commitment to lend all of the DIP Facility, upon and subject to the terms and conditions of this letter and the Summary of Terms and Conditions attached hereto as Exhibit A (the "Term Sheet").

Bank will act as sole and exclusive administrative agent for the DIP Facility. No additional agents, co-agents or arrangers will be appointed and no other titles will be awarded without Bank's prior written approval.

Bank intends to commence syndication efforts promptly, and Borrower agrees to assist Bank in its syndication efforts, using reasonable efforts under the circumstances (e.g., that Borrower is about to file bankruptcy and thereafter be in bankruptcy). Such assistance shall include (a) Borrower providing and causing its advisors to provide Bank and the other Lenders upon request with all information reasonably available to the advisors and Borrower; (b) Borrower using reasonable efforts under the circumstances to provide assistance in the preparation of an Offering Memorandum to be used in connection with the syndication; and (c) Borrower otherwise using reasonable efforts under the circumstances to assist Bank in its syndication efforts, including using reasonable efforts under the circumstances to make senior management and advisors of Borrower and its subsidiaries available from time to time to attend and make presentations regarding the business and prospects of Borrower and its subsidiaries, as appropriate, at one or more meetings of prospective Lenders. Assistance by advisors to Borrower shall commence upon execution of this letter, and assistance by Borrower shall commence following the closing of the DIP Facility.

It is understood and agreed that Bank will manage and control all aspects of the syndication, including decisions as to the selection of proposed Lenders and any titles offered to proposed Lenders, when commitments will be accepted and the final allocations of the commitments among the Lenders. It is further understood and agreed that no Lender participating in the DIP Facility will receive compensation from Borrower in order to obtain its commitment, except on the terms contained herein, in the Term Sheet and in the Fee Letter described below.

The commitment of Bank hereunder and the agreement of Bank to provide the services described herein are subject to the agreement in the preceding paragraph and the satisfaction of each of the following conditions precedent in a manner acceptable to Bank in its good faith discretion: (a) each of the terms and conditions set forth herein and in the Term Sheet; (b) the absence of a material breach of any representation, warranty or agreement of Borrower set forth herein; (c) Bank's satisfaction that prior to and until closing of the DIP Facility there shall be no competing offering, placement or arrangement of any debt securities or bank financing by or on behalf of Borrower unless otherwise consented to by Bank (provided, however, the foregoing shall not apply to negotiations with financial institutions [excluding those potential lenders identified by Bank to Borrower] regarding a post-confirmation exit revolving and term credit

facilities); (d) the negotiation, execution and delivery of definitive documentation for the DIP Facility consistent with the Term Sheet and otherwise satisfactory to Bank in the exercise of its credit judgment; (e) other than the filing of the Chapter 11 Proceeding, no change, occurrence or development that could, in Bank's opinion, have a material adverse effect on the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of Borrower and its subsidiaries taken as a whole shall have occurred or become known to Bank; and (f) Bank not becoming aware after the date hereof of any information or other matter which in Bank's judgment is inconsistent in a material and adverse manner with any information or other matter disclosed to Bank prior to the date hereof with respect to Borrower, its business or financial condition, or the transactions contemplated in connection with the DIP Facility (in which case Bank may, in its sole discretion, suggest alternative financing amounts or structures that ensure adequate protection for the Lenders or terminate this letter and any commitment or undertaking hereunder).

Borrower hereby represents, warrants and covenants that (a) all information, other than Projections (defined below), which has been or is hereafter made available to Bank or the Lenders by Borrower or any of Borrower's representatives in connection with the transactions contemplated hereby (the "Information") is and will be complete and correct in all material respects and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein not misleading, and (b) all financial projections concerning Borrower and its subsidiaries that have been or are hereafter made available to Bank or the Lenders by Borrower or any of Borrower's representatives (the "Projections") have been or will be prepared in good faith based upon assumptions Borrower believes to be reasonable. Borrower agrees to furnish Bank with such Information and Projections as Bank may reasonably request and to supplement the Information and the Projections from time to time until the closing date for the DIP Facility so that the representations, warranties and covenants in the preceding sentence are correct on such closing date. Borrower understands that in arranging and syndicating the DIP Facility, Bank will be using and relying on the Information and the Projections without independent verification thereof.

By acceptance of this offer, Borrower agrees to pay all costs and expenses of Bank described in the Term Sheet.

Borrower agrees to indemnify and hold harmless Bank, each Lender and each of their affiliates and their directors, officers, employees, advisors and agents (each, an "Indemnified Party") from and against (and will reimburse each Indemnified Party for) any and all losses, claims, damages, liabilities, and expenses (including, without limitation, the reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith) any matters contemplated by this letter, any related transaction, the DIP Facility or any use made or proposed to be made with the proceeds thereof, unless and only to the extent that, as to any Indemnified Party, it shall be determined in a final, nonappealable judgment by a court of competent jurisdiction that such losses, claims, damages, liabilities or expenses resulted primarily from the gross negligence or willful misconduct of such Indemnified Party. Borrower agrees that no Indemnified Party shall have any liability for any indirect or consequential damages in connection with the DIP Facility.

The terms of this letter, the Term Sheet and the fee letter of even date herewith among Borrower and Bank (the "Fee Letter") are confidential and, except for disclosure on a confidential basis to accountants, attorneys and other professional advisors retained by Borrower in connection with the DIP Facility, the members of the ad hoc committee of the holders of Parent's senior subordinated notes and their advisors, providers of surety bonds and their advisors or as may be required by law, or as may be required in connection with the Chapter 11 Proceeding, may not be disclosed in whole or in part to any other person or entity without Bank's prior written consent.

All of Borrower's reimbursement, indemnification and confidentiality obligations set forth in this letter shall remain in full force and effect regardless of whether any definitive documentation for the DIP Facility shall be executed and notwithstanding the termination of this letter or any commitment or undertaking hereunder.

If Borrower breaches any of its obligations or agreements set forth in this letter other than those set forth in the third paragraph, the seventh paragraph (other than as to payment of the Commitment Fee set forth in the Fee Letter), or the first sentence of the eighth paragraph of this letter, at Bank's option this letter and Bank's commitment hereunder shall terminate and Borrower shall forfeit any fees paid to Bank prior to such termination. If Borrower breaches any of its obligations or agreements set forth in the third paragraph, the seventh paragraph (other than as to payment of the Commitment Fee set forth in the Fee Letter), or the first sentence of the eighth paragraph of this letter and such breach continues without a cure satisfactory to Bank in its good faith discretion for a period of one business day after notice

from Bank, at Bank's option this letter and Bank's commitment hereunder shall terminate and Borrower shall forfeit any fees paid to Bank prior to such termination.

Borrower agrees that Bank may charge any and all amounts due by Borrower to Bank under or in connection with this letter to any account of Borrower maintained with Bank.

This letter, the Term Sheet and the Fee Letter shall be governed by laws of the State of Texas. Each of Borrower and Bank hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this letter, the Term Sheet, the Fee Letter, the transactions contemplated hereby and thereby or the actions of Borrower or Bank in the negotiation, performance or enforcement hereof.

This letter, together with the Term Sheet and the Fee Letter, set forth the entire understanding of Borrower and Bank with respect to the DIP Facility. This letter may be modified or amended only by the written agreement of Parent and Bank. This letter is not assignable by Borrower without Bank's prior written consent and is intended to be solely for the benefit of Borrower, Bank and the Indemnified Parties.

This offer will expire at 5:00 p.m. Dallas, Texas time on February 2, 2006, unless Parent executes this letter and the Fee Letter and returns them to Bank prior to that time (which may be by facsimile transmission), together with all fees due upon acceptance of this commitment in accordance with the terms of the Fee Letter, whereupon this letter and the Fee Letter (each of which may be signed in one or more counterparts) shall become binding agreements. Thereafter, this undertaking and commitment will expire on March 15, 2006, unless definitive documentation for the DIP Facility is executed and delivered prior to such date.

We look forward to working with you in the weeks ahead.

Very truly yours,

BANK OF AMERICA, N.A.

By: /s/ H. Michael Wills
Title: Senior Vice President

Accepted and Agreed to as of
February 2, 2006:

INTEGRATED ELECTRICAL SERVICES, INC.,
on behalf of itself and all of its Subsidiaries

By: /s/ David A. Miller
Title: Chief Financial Officer

**TERM SHEET
FOR SURETY SUPPORT
INTEGRATED ELECTRICAL SERVICES, INC.
ITS SUBSIDIARIES AND AFFILIATES**

Integrated Electrical Services, Inc., its subsidiaries and affiliates (collectively, "IES") has informed Federal Insurance Company, its subsidiary and affiliated insurers and co-sureties, if any, (collectively "Federal") that IES intends to file a petition for voluntary relief (the "Petition") under Chapter 11 of the United States Bankruptcy Code (the "Code"). Upon the filing of the Petition and entry of appropriate court order(s), Federal is prepared to provide to IES surety credit in the amounts set forth below based upon the terms and conditions as set out in this Term Sheet For Surety Support (the "Term Sheet"):

PRE-PETITION FACILITY

Reference is made to that certain Underwriting, Continuing Indemnity, and Security Agreement dated January 14, 2005, the Restated Pledge Agreement of even date therewith, the Amendment to Pledge Agreement and Underwriting, Continuing Indemnity and Security Agreement dated January 17, 2006, the General Agreement of Indemnity dated January 9, 1998, and the General Agreement of Indemnity dated September 9, 2004 (collectively, along with any other agreements executed by IES in favor of Federal, the "Surety Agreements"), pursuant to which Federal holds as collateral \$14,997,955.50 in letters of credit, such letters of credit as follows: an Irrevocable Letter of Credit No. ASL-3014854-140INE issued by Bank of America on August 17, 2005, in the amount of Six Million Three Hundred Ninety-Eight Thousand Seven Hundred and Forty-Eight Dollars (\$6,398,748), an Irrevocable Letter of Credit No. ASL-3014832-140INE issued by Bank of America on August 8, 2005, in the amount of Five Million Dollars (\$5,000,000), and an Irrevocable Letter of Credit No. ASL-7420346-140INE issued by Bank of America on January 20, 2006, in the amount of Three Million Five Hundred Ninety Nine Thousand Two Hundred Seven and 50/100 (\$3,599,207.50) and Eighteen Million One Hundred Thirteen Thousand Seventy Eight 50/100 Dollars (\$18,113,078.50) in cash (this amount includes the \$17,500,000 pledged pursuant to the original Pledge Agreement and the \$613,078.50 pledged pursuant to the Pledge Agreement, as amended) (collectively the "Pledged Cash"), plus interest accruing upon such cash (the "Pre-Petition Facility").

INTERIM DIP SURETY CREDIT FACILITY

Upon the filing of a bankruptcy petition by IES under Chapter 11 of the Bankruptcy Code (the "Petition") and in the absence of an Event of Default as defined under the Surety Agreements (other than any bankruptcy related defaults or cross-defaults arising from prepetition debt) ("Event of Default"), Federal is prepared to offer up to an aggregate of \$48 million in continuing surety credit and permission to use cash collateral in the form of proceeds of all contracts as to which Federal issued bonds at the request of IES and in reliance upon one or more of the Surety Agreements (collectively, including those contracts as to which Federal issues bonds pursuant to the Prepetition Facility and the Interim DIP Surety Credit Facility, the "Bonded Contracts") in the absence of Surety Loss as defined under the Surety Agreements

("Surety Loss") or the occurrence of an Event of Default (in no event will the foregoing be deemed a consent to the use of the Pledged Cash) to the Debtor in Possession on an interim basis (the "Interim DIP Surety Credit Facility") upon the following terms and conditions:

BONDS:

Federal will grant to IES permission to use proceeds of pre-petition Bonded Contracts, Bonded Contract receivables and Bonded Contract inventory in exchange for adequate protection in the form of replacement liens upon post-petition Bonded Contracts, Bonded Contract receivables and Bonded Contract inventory.

1. Upon entry of a court order authorizing Debtor to obtain additional surety credit, Federal will consider executing up to \$48,000,000 in new surety bonds to be issued over a four month period subject to the following:
 - (a) not more than \$12 million in new bonds are issued per month, after receipt of the collateral installment described in paragraph 4;
 - (b) the issuance of bid bonds shall not be an obligation on Federal to issue final bonds; and
 - (c) forfeiture of any bid bond constitutes and is part of the definition of Surety Loss.
2. The issuance of any bond will be in Federal's sole and absolute discretion and Federal may decline to issue any bond submitted by IES.
3. Any and all bond premiums payable in connection with the issuance of such bonds will have been paid; such bond premium to be charged at a rate of \$25 per \$1,000 of the contract price.
4. Federal will receive additional collateral of \$6,000,000 in the form of cash or an irrevocable letter of credit in installments of \$1,500,000 per month, any such letter of credit to be issued by Bank of America, N.A. or another financial institution acceptable to Federal, in Federal's sole and absolute discretion, and in a form acceptable to Federal, in Federal's sole and absolute discretion, to be held together with collateral granted under the Pre-Petition Facility securing all IES obligations to Federal on a "spread of risk" basis.
5. If IES does not emerge from bankruptcy within 120 days after the filing of its Petition, the Interim DIP Surety Credit Facility will immediately expire and no further bonds will be available hereunder.
6. No single bond will be issued under the Interim DIP Surety Credit Facility with a penal sum in excess of \$3 million, or with respect to a contract having a completion date more than 18 months from the commencement of work thereunder.

7. No bonds will be issued under the Interim DIP Surety Credit Facility if an Event of Default has occurred.
8. Federal will receive indemnification from all current and future bond principals for the Interim DIP Surety Credit Facility.
9. Bid bonds will count towards the Interim DIP Surety Credit Facility in an amount equal to the penal amount of the bid bond. In the event Federal issues a written consent or otherwise is committed to issue final bonds with respect to any bid bonds, then the full aggregate penal amount of the resulting final bonds will count towards the Interim DIP Surety Credit Facility. If a final bond is not issued and the bid bond is cancelled, then the amount of the bid bond will no longer count against the available facility. **Federal's issuance of a bid bond for an underlying contract does not constitute a promise by or create an obligation on the part of Federal to issue the final bond on such contract.**
10. Federal will not issue "low penalty bonds", i.e. bonds in a penal sum less than the original contract amount, except upon receipt of 100% collateral.
11. In the event of additive change orders that result in corresponding increases in a bond's penal limit, IES will be required to notify Federal and deliver to Federal additional cash collateral equal to 50% of any increase in the penal sum of any contract surety bond and 100% of the increase in the penal sum of any other bond plus the payment of all additional bond premium due.
12. The limitation on availability of surety credit to be issued under this facility shall be calculated on the aggregate penal sums of bonds issued.

CONDITIONS FOR INTERIM DIP SURETY CREDIT FACILITY:

1. The payment of the Due Diligence and Facility Fees (hereinafter described) and all unpaid bond premium.
2. IES will assume, without reservation and within the meaning of Section 365 of the United States Bankruptcy Code, the Bonded Contracts. IES will consent to the immediate entry of an Order by the Court reflecting the foregoing assumption, the entry and finality of said Order being a precondition to the issuance of any additional bonds by Federal.
3. If required by Federal, IES will execute certain Interim DIP Surety Credit Facility documents which will include the reaffirmation and assumption within the meaning of Section 365 of the Bankruptcy Code by IES of the Underwriting and Continuing Indemnity, and Security Agreement dated January 14, 2005 (the "Underwriting Agreement") and related agreements, including but not limited to

the Restated Pledge Agreement of even date therewith, General Agreement of Indemnity dated January 9, 1998 and General Agreement of Indemnity dated September 9, 2004, as well as the reaffirmation of the security interests in collateral granted therein, such documents and reaffirmation(s) to be in form and substance reasonably acceptable to Federal, including, as necessary, post-petition amendments thereto granting to Federal first priority liens and interests in property of the same type described and defined as Collateral in the Surety Agreements acquired after the Petition date. Additionally, the Interim DIP Surety Credit Facility documents will include IES' specific acknowledgment of the continuing effectiveness of, among other terms, the trust fund and bankruptcy provisions and protections of Sections 10, 15, 16, 17, 18, 19, and 42 of the Underwriting Agreement and the definitions of "Surety Loss" and "Event of Default" included therein. The Interim DIP Surety Credit Facility documents will, in the absence of an event of default thereunder, grant to IES permission to use Federal's pre-petition cash collateral, exclusive of Pledged Cash, to support its post-petition operations in exchange for replacement liens in post-petition Bonded Contracts, Bonded Contract receivables, Bonded Contract inventory and the proceeds thereof.

4. Among the orders to be entered giving effect to the Interim DIP Surety Credit Facility will be a provision granting to Federal such relief from the provisions of the Automatic Stay as may be necessary to allow Federal access to any and all collateral for the purpose of reimbursing Federal for any and all Surety Loss it may incur without further or additional court orders.
5. An adequate bank DIP facility and equity conversion plan will be established pursuant to terms and conditions satisfactory to Federal.
6. That certain Letter Agreement dated 8/1/05 by and between Federal and Bank of America, N.A., as amended, will remain in effect during the Chapter 11 case and will be reaffirmed, including with respect to Federal's first priority security interest in inventory and equipment delivered to, prefabricated for, or specifically ordered for a Bonded Contract job site, and any and all other collateral rights granted to Federal in the Surety Agreements. In the absence of an Event of Default, Federal acknowledges that all proceeds of Bonded Contracts will continue to be paid into the existing cash management system between IES and Bank of America, N.A.
7. Any bonds to be issued under the Interim DIP Surety Credit Facility, such issuance to be in Federal's sole and absolute discretion, will be issued only for entities other than the following:

Bryant	Pan Am
Henderson	Popp
Valentine	Daniels

8. Documentation supporting the Interim DIP Surety Credit Facility in a form and substance acceptable to Federal in Federal's sole and absolute discretion and approved by the Court.
9. Additional prerequisites to the Interim DIP Surety Credit Facility will include, but will not be limited to, appropriate corporate resolutions, and incumbency certificates, all in form and substance satisfactory to Federal.
10. None of the collateral currently held by Federal pursuant to the terms of the Surety Agreements and/or the terms of this Term Sheet will be returned or released until all of IES' obligations for which Federal has issued a bond have been satisfied, including but not limited to any warranty or latent defect claims on any Bonded Contracts, or all bonds issued by Federal on behalf of IES have been replaced, returned or discharged in full without Surety Loss.
11. **THIS TERM SHEET DOES NOT CONSTITUTE AN OFFER TO EXTEND SURETY CREDIT AND REMAINS SUBJECT TO ENTRY OF INTERIM AND FINAL BANKRUPTCY COURT ORDERS AUTHORIZING THE FOREGOING, THE ORDERS BEING, IN FORM AND SUBSTANCE, ACCEPTABLE TO FEDERAL IN ITS SOLE AND ABSOLUTE DISCRETION.**

DUE DILIGENCE AND FACILITY FEES:

Upon acceptance of this Term Sheet, IES will pay to Federal a non-refundable Due Diligence Fee of \$500,000. A Facility Fee of \$500,000 is to be paid upon effective Court approval of the Interim DIP Surety Credit Facility. Upon receipt of the Facility Fee, Federal will waive all attorneys' and consulting fees and expenses incurred by it through February 28, 2006. Federal's waiver of its attorneys' and consultants' fees and expenses which it incurs through February 28, 2006, will not be deemed to waive any attorneys' and consultants' fees and expenses incurred in relation to claims made under a particular bond, including, but not limited to, the Goochland County claim.

SURETY FEES AND EXPENSES:

All attorneys' fees and consultants' expenses incurred by Federal after February 28, 2006, will be reimbursed by IES. IES reconfirms Federal's right to use the Pledged Cash collateral to reimburse said fees and expenses.

FEDERAL INSURANCE COMPANY

By: /s/ Edward J. Reilly
Name: Edward J. Reilly
Title: Assistant Secretary

INTEGRATED ELECTRICAL SERVICES, INC.

By: /s/ Curt L. Warnock
Name: Curt L. Warnock
Title: Senior Vice President & General Counsel